

**SOUTHSIDE MUTUAL DOMESTIC
WATER ASSOCIATION
AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2013**

INTRODUCTORY SECTION

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION:	
Table of Contents	i
List of Principal Officials	ii
BASIC FINANCIAL STATEMENTS:	
Independent Auditor's Report	v
Management's Discussion and Analysis.....	vii
Statement of Net Position	2
Statement of Revenues, Expenses and Changes in Fund Net Position	3
Statement of Cash Flows	4
Notes to the Financial Statements.....	5
COMPLIANCE SECTION:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	15
Schedule of Findings and Responses	17
EXIT CONFERENCE	18

**SOUTHSIDE MUTUAL DOMESTIC
WATER ASSOCIATION
List of Principal Officials
December 31, 2013**

<u>Name</u>	<u>Title</u>
Vaughn Campbell	President
Lee Truitt	Vice President
Rosemary Needham.....	Secretary / Treasurer
April Munkres.....	Director
Ron Hicks	Director
Bruce London	System Manager
Janet Beasley	Office Manager

FINANCIAL SECTION

This Page Intentionally Left Blank

INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas, New Mexico State Auditor and
Board Members
Southside Mutual Domestic Association
Flora Vista, New Mexico

Report on Financial Statements

We have audited the accompanying basic financial statements of the business-type activities, which are comprised of the statements of net position as of December 31, 2013 and statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, of the Southside Mutual Domestic Water Association.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southside Mutual Domestic Water Association as of December 31, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages vii-x be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2014 on our consideration of the entity'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 entity's internal control over financial reporting and compliance.



**Farmington, New Mexico
April 21, 2014**

Management's Discussion and Analysis Year Ended December 31, 2013

For financial reporting purposes, Southside Mutual Domestic Water Association (the Association) is considered a special purpose, primary government according to the Attorney General's Opinion. Accordingly, the Association's financial statements have been presented using the economic resources measurement focus and accrual basis accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The report consists of Managements' Discussion and Analysis, the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the Association.

The discussion and analysis of the Association's financial statements provides an overview of its financial activities as of and for the year ended December 31, 2013.

Financial Highlights

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2013 by \$627,899 (net position). This was an increase of \$20,924 from December 31, 2012 net position of \$606,975. Of the December 31, 2013 net position, \$627,899 is unrestricted.
- The Association's financial position increased in 2013 as compared to prior year. Net position increased during the year by \$20,924 due to an increase in operating revenues of \$25,700 and a decrease in operating expenses of \$53,205. Depreciation expense of \$24,064 is included in this increase of net position.
- The Association's cash and cash equivalents reflect \$235,611 at December 31, 2013. Accounts receivable from water sales to members was \$33,756 at December 31, 2013.

The Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Position report the Association's net assets and how they have changed. Net Position is defined as the difference between assets and liabilities. It is one indicator that measures the Association's financial health, or position. Non-financial factors are also important to consider, including number of members and the condition of the system.

These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the Association's assets, liabilities, and net position as of December 31, 2013 and 2012.

Net Position, as of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets	\$ 291,095	\$ 341,880
Capital Assets, Net	409,084	419,370
Non-Current Assets	<u>135,973</u>	<u>75,975</u>
Total Assets	836,152	837,225
Liabilities		
Current Liabilities	\$ 51,994	\$ 48,611
Non-Current Liabilities	<u>156,259</u>	<u>181,639</u>
Total Liabilities	208,253	230,250
Net Position:		
Net investment in		
capital Assets	\$ 352,618	\$ 308,053
Unrestricted	<u>275,281</u>	<u>298,922</u>
Total Net Position	\$ 627,899	\$ 606,975

Analysis of Net Position

The Association's assets exceeded liabilities by \$627,899 at the close of the fiscal year. Net position consists of 56% Capital Assets (e.g. project works, buildings, equipment and water rights) less related debt or \$352,618. The Association uses these capital assets in its mission to deliver treated water to members in the Association's service area; consequently, these assets are not available for future spending. Unrestricted net position is available for the Association's ongoing operations and is \$275,281.

The following table summarizes the Association's revenue, expenses, and changes in net position for the year ended December 31, 2013 and 2012:

Revenue, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 342,095	\$ 316,395
Operating Expenses	<u>322,318</u>	<u>364,845</u>
Operating income (loss)	19,777	(48,450)
Nonoperating Revenues (Expenses)	<u>1,147</u>	<u>476</u>
Change in Net Position	\$ 20,924	\$ (47,974)

During the fiscal year, the Association's net position increased by \$20,924. Operating revenues increased by \$25,700.

The Association's does not legally adopt a budget.

Operating Revenues

The following table summarizes the Association's operating revenues for the fiscal year ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Charges for services	\$ 342,095	\$ 316,395
Other operating revenues	<u>-</u>	<u>-</u>
Total Operating Revenues	\$ 342,095	\$ 316,395

Operating Expenses

The following table summarizes the Association's operating expenses for the fiscal year ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Personnel services	\$ 118,784	\$ 112,480
Maintenance, operations and contractual services	95,155	138,078
Water purchased for resale	74,267	78,747
Office expenses	11,149	11,476
Depreciation	<u>22,963</u>	<u>24,064</u>
Total Operating Expenses	\$ 322,318	\$ 364,845

Non-Operating Revenues and Expenses

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 655	\$ 954
Rental income	10,910	10,200
Interest expense	<u>(10,418)</u>	<u>(10,678)</u>
Total Nonoperating Revenues	\$ 1,147	\$ 476

Capital Assets and Long-Term Debt

The Association added \$59,998 in water rights during the fiscal year ended December 31, 2013.

The Association also added \$12,677 and \$1,724 in capital assets during the fiscal year ended December 31, 2013 and 2012. Depreciation expenses for the year ended December 31, 2013 and 2012, amounted to \$22,963 and \$24,064, respectively.

The Association made principal payments in the amount of \$6,460 and \$5,883 during the years ended December 31, 2013 and 2012, respectively.

Factors Impacting Future Periods

The Association will continue maintenance on the delivery system of treated water to members in its service area.

The Association has active construction projects as of December 31, 2013 as follows:

<u>Project</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
Treatment plant.....	\$ 11,607	\$ 786,193
Water line upgrade CR 3100....	-	-

The treatment plant will be financed with a 2%, 20 year loan from the New Mexico Finance Authority.

The water line upgrade CR 3100 will be paid for with a state grant of \$77,800 and is expected to be started and completed in 2014.

Comparison of Budget to Actual

The Association does not legally adopt a budget.

BASIC FINANCIAL STATEMENTS

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF NET POSITION**

December 31, 2013

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 235,611
Accounts receivable, net	33,756
Inventory	8,000
Prepaid expenses	13,728
Total Current Assets	<u>291,095</u>
NONCURRENT ASSETS:	
Water rights	135,973
Capital assets not being depreciated	61,607
Capital assets, net of accumulated depreciation	347,477
Total Noncurrent Assets	<u>545,057</u>
Total Assets	<u>\$ 836,152</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ 8,626
Accrued taxes payable	7,188
Current portion of noncurrent liabilities	36,180
Total Current Liabilities	51,994
NONCURRENT LIABILITIES:	
Notes payable (noncurrent)	156,259
Total Liabilities	<u>208,253</u>
NET POSITION:	
Net investment in capital assets	352,618
Unrestricted	275,281
Total Net Position	<u>627,899</u>
Total Liabilities and Net Position	<u>\$ 836,152</u>

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

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION**

Year Ended December 31, 2013

OPERATING REVENUES:

Charges for services	\$	342,095
Other operating revenues		<u>-</u>

Total Operating Revenues		<u>342,095</u>
---------------------------------	--	----------------

OPERATING EXPENSES:

Personnel services		118,784
Maintenance, operations and contractual services		95,155
Water purchased for resale		74,267
Office expenses		11,149
Depreciation		<u>22,963</u>

Total Operating Expenses		<u>322,318</u>
---------------------------------	--	----------------

Operating Income (Loss)		<u>19,777</u>
--------------------------------	--	---------------

NONOPERATING REVENUES (EXPENSES):

Interest income		655
Rental income		10,910
Interest expense		<u>(10,418)</u>

Total Nonoperating Revenues (Expenses)		<u>1,147</u>
---	--	--------------

Increase (decrease) in net position		20,924
--	--	--------

NET POSITION, beginning of year		<u>606,975</u>
--	--	----------------

NET POSITION, end of year	\$	<u><u>627,899</u></u>
----------------------------------	----	-----------------------

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

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF CASH FLOWS**

Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services and other operating revenues	\$ 336,034
Payments to employees for salaries and benefits	(118,108)
Payments to suppliers	(208,128)
	<hr/>
Net Cash Provided (Used) By Operating Activities	9,798
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating grants	-
	<hr/>
Net Cash Provided (Used) By Noncapital Financing Activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Rental income	10,910
Purchases of capital assets	(61,068)
Repayment of debt	(6,460)
Interest paid on capital debt	(10,418)
	<hr/>
Net Cash Provided (Used) By Capital and Related Financing Activities	(67,036)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received from investments	655
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(56,583)
CASH AND CASH EQUIVALENTS, beginning	292,194
	<hr/>
CASH AND CASH EQUIVALENTS, ending	\$ 235,611
	<hr/> <hr/>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 19,777
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	22,963
Changes in:	
Accounts receivable	(6,061)
Prepaid expenses	263
Accounts payable	(27,820)
Accrued taxes payable	676
	<hr/>
Net Cash Provided (Used) By Operating Activities	\$ 9,798
	<hr/> <hr/>

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

SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 – CREATION OF ENTITY AND BASIS OF PRESENTATION

Reporting Entity

Southside Mutual Domestic Water Association (the Association) is a not-for-profit Mutual Domestic Association established for the purpose of constructing, maintaining, and operating a water system for members of the Association in its service area. The Association was initially incorporated in 1966 as a Cooperative Association under the provisions of the New Mexico Cooperative Corporation Act. Effective January 1, 2007, the Board of Directors changed its form of organization from a not-for-profit cooperative to a not-for-profit association under the Sanitary Projects Act, NMSA 3-29-20.

Under the Sanitary Projects Act, the Association remains a not-for-profit organization owned and governed by its members. It is also eligible to receive certain loans and grants from the State of New Mexico.

An Attorney General's (AG) opinion (90-30, dated December 27, 1990) concludes that entities created under the Sanitary Projects Act (SPA) are subject to the New Mexico Audit Act. Additionally, there is another AG opinion (68-38) that states Mutual Domestic Associations (MDAs) under the SPA are created for "one purpose only, and that is to establish and maintain a water system". Also, it concluded MDAs are not "other municipal corporations "and are, thus, subject to ad valorem taxes. Finally, the Attorney General Opinion 06-02 has determined that MDAs created pursuant to the SPA 1) are public bodies/political subdivisions; 2) whose revenues are "public money"; and 3) 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 MDAs have been determined to be governmental nonprofit organizations, in evaluating how to define a governmental entity, for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability pursuant to Governmental Accounting Standards Board (GASB) No. 61, *The Financial Reporting Entity: Omnibus, An Amendment of GASB Statements No. 14 and No. 34* includes consideration of a number of criteria, including: (1) the ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity's fiscal dependency on others. The Association has determined that it has no reportable component units.

Basis of Accounting

For financial reporting purposes, the Association is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include amounts in demand deposit accounts, cash on hand, and certificates of deposits. For purposes of the statement of cash flows, the Association considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Collateral is required for at least 50% (102% for overnight deposits) of all balances not insured by the FDIC. Obligations that may be pledged as collateral are obligations of the U.S. Government, its agencies and state and local governments. Collateral is held in safekeeping at depository institutions.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

The Association has reviewed its customer base for concentrations of credit risk and has determined that no individual customer or group of customers engaged in similar activities represent a material concentration of credit risk to the Association.

Inventory

Inventory is valued at cost using the first-in first-out method.

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 \$500 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. 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 of the assets, generally 10 years for equipment, 20 years for water system assets, and 40 years for buildings.

Compensated Absences

The Association does not pay for unused vacation and sick leave upon termination; therefore, amounts are not accrued.

Net Position Classification

In the financial statements, restricted net position is legally restricted by outside parties (such as creditors, grantors, contributors, laws and regulations of other governments) for a specific purpose. Net investment in capital assets represents the Association's investment in the book value of capital assets, less any outstanding debt that was issued to construct or acquire the capital asset. The Association applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Revenues

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

Operating revenue include activities that have the characteristics of an exchange transaction, such as a) charges for services and fees, net of allowance for uncollectible allowance.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as a) capital grants; and b) 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 a) employee salaries, benefits, and related expense; b) maintenance, operations and contractual services; c) material and supplies; d) office expenses; and e) 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.

Tax Status

The Association operates as 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.

Management of the Association believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(12) of the internal Revenue Code and believes there are no activities subject to unrelated business income tax. The Association files federal Form 990 with the Internal Revenue Service and copies of Form 990 with states in which the Association is registered, as required. The statute of limitations for examination of the Association's returns expires three years from the due date of the return or the date filed, whichever is later. The Association's returns for the years ended December 31, 2010 through 2012, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2013, will expire in May 2017.

Budgets

The Association does not adopt a legal budget.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of December 31, 2013:

Demand deposits - Citizens Bank.....	\$	51,279
Savings account - Citizens Bank.....		17,834
CDs - Citizens Bank.....		114,889
CDs - Washington Federal.....		51,504
Petty cash.....		<u>105</u>
Total.....	\$	<u>235,611</u>

Custodial Credit Risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. State statute requires that the bank deposits in excess of FDIC insurance be 50% collateralized. As of December 31, 2013, the Association was in compliance with state statute. The carrying amount of the Association's deposits was \$235,506 and the bank balance was \$235,805 as of December 31, 2013. Of the bank balance, \$235,805 was covered by federal depository insurance, \$0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name, and \$0 was uncollateralized. The custodial credit risk is \$0.

The pledged security has a maturity date of 08/1/2019, Cusip #778550HB2, market value of \$100,000 and is held at Federal Home Loan Bank Dallas.

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

<u>Business-type activities</u>	<u>January 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2013</u>
Non-Depreciable Assets:				
Land	\$ 115,241	\$ -	\$ -	\$ 115,241
Construction in progress	-	11,607	-	11,607
Total Non-Depreciable Assets	<u>115,241</u>	<u>11,607</u>	<u>-</u>	<u>126,848</u>
Depreciable Assets:				
Water system	327,229	-	-	327,229
Buildings	345,776	-	-	345,776
Equipment	47,467	1,070	-	48,537
Total Depreciable Assets	<u>720,472</u>	<u>1,070</u>	<u>-</u>	<u>721,542</u>
Total Governmental Assets	<u>835,713</u>	<u>12,677</u>	<u>-</u>	<u>848,390</u>
Accumulated Depreciation:				
Water system	(299,668)	(7,684)	-	(307,352)
Buildings	(77,139)	(9,719)	-	(86,858)
Equipment	(39,536)	(5,560)	-	(45,096)
Total Accumulated Depreciation	<u>(416,343)</u>	<u>(22,963)</u>	<u>-</u>	<u>(439,306)</u>
Net Capital Assets	<u>\$ 419,370</u>	<u>\$ (10,286)</u>	<u>\$ -</u>	<u>\$ 409,084</u>

NOTE 5 - LONG-TERM DEBT

During the year ended December 31, 2013, the following changes occurred in long-term debt:

	<u>Balance</u> <u>12/31/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2013</u>	<u>Due Within</u> <u>One Year</u>
N/P - Bank	\$ 154,671	\$ -	\$ 4,858	\$ 149,813	\$ 5,161
N/P - Bank	32,621	-	1,602	31,019	31,019
N/P - NMFA	<u>-</u>	<u>11,607</u>	<u>-</u>	<u>11,607</u>	<u>-</u>
Total	<u>\$ 187,292</u>	<u>\$ 11,607</u>	<u>\$ 6,460</u>	<u>\$ 192,439</u>	<u>\$ 36,180</u>

Note Payable – Bank

Installment note payable to a bank, payable in monthly installments of \$1,199, including interest of 6.25%, due in 2015 and secured by the office building.

Note Payable – Bank

Installment note payable to a bank, payable in monthly installments of \$190, including interest of 2.1%, due in 2014 and secured by bank deposits.

Note Payable – NMFA

The Association entered into an agreement, dated July 19, 2013, with the New Mexico Finance Authority for a maximum loan amount of \$797,900 to finance the construction of a water treatment plant. Repayment does not begin until the project is completed.

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

<u>Fiscal Year Ended</u>	<u>Principal</u>
December 31, 2014.....	\$ 36,180
December 31, 2015.....	<u>144,652</u>
Debt service requirements.....	180,832
Advances on notes in progress....	11,607
Less current portion.....	<u>(36,180)</u>
Long-term debt, net.....	<u>\$156,259</u>

NOTE 6 - SUPPLEMENTAL CASH FLOW DISCLOSURES

The following is a summary of additional cash flow disclosures required:

Interest paid of \$10,418 during the year ended December 31, 2013.

NOTE 7 - CONTINGENCIES AND COMMITMENTS

Risk Management

The Association has purchased commercial insurance that transfers risks of loss to an unrelated party. This coverage minimizes the Association’s retained risks of loss up to the policy limits.

Construction Commitments

The Association has active construction projects as of December 31, 2013 as follows:

<u>Project</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
Treatment plant.....	\$ 11,607	\$ 786,193
Water line upgrade CR 3100....	-	-

The treatment plant will be financed with a 2%, 20 year loan from the New Mexico Finance Authority.

The water line upgrade CR 3100 will be paid for with a state grant of \$77,800 and is expected to be started and completed in 2014.

NOTE 8 – MAJOR SUPPLIER

In accordance with an agreement dated July 5, 2005, the Organization purchases substantially all of its water from the City of Aztec for delivery to its members. The agreement is a five year agreement. The cost of water purchased from the City during the years ended December 31, 2013 and 2012 was \$74,267 and \$78,747, respectively.

NOTE 9 – SUBSEQUENT EVENT

The Association has evaluated subsequent events through April 21, 2014, which is the date the financial statements were available to be issued.

This Page Intentionally Left Blank

COMPLIANCE SECTION

This Page Intentionally Left Blank

**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**

Hector H. Balderas, New Mexico State Auditor and
Board Members
Southside Mutual Domestic Association
Flora Vista, New Mexico

We have audited, 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, the financial statements of the business-type activities of the Southside Mutual Domestic Water Association as of and for the ended December 31, 2013, 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 21, 2014.

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 opinion 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 the 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to 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 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 deficiency described in the accompanying schedule of findings and responses as item FS 2013-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Response to Findings

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Association's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large initial "D".

**Farmington, New Mexico
April 21, 2014**

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the Association.
2. No material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Association were disclosed during the audit.
4. A single audit was not required.

B. Findings - Financial Statements Audit

Prior Year Findings

None

Current Year Findings

FS 2013-1 – Inadequate Segregation of Accounting Duties (material weakness)

Condition

The Association has one accounting person that performs all of the accounting duties.

Criteria

The Association should establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

Cause

The Association has limited accounting staff.

Effect

Errors could occur and not be discovered on a timely basis.

Recommendation

The Association should establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

Management Response

The Association will try to establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
Year Ended December 31, 2013

A. Financial Statement Presentation

The Association's financial statements were prepared by David Berry, CPA, PC. Management has reviewed and approved these financial statements. Management is responsible for ensuring that the books and records from which the financial statements were prepared adequately support the financial assertions contained therein, in conformity with generally accepted accounting principles and that the records are current and in balance.

B. Exit Conference

An exit conference was held on April 29, 2014. In attendance were:

Southside Mutual Domestic Water Association:

Board Member	Vaughn Campbell
Office Manager.....	Janet Beasley

David Berry, CPA, PC:

Auditor	David Berry, CPA
---------------	------------------