

**SOUTHSIDE MUTUAL DOMESTIC  
WATER ASSOCIATION  
AUDITED FINANCIAL STATEMENTS  
Year Ended December 31, 2018**

## **INTRODUCTORY SECTION**

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**SOUTHSIDE MUTUAL DOMESTIC  
WATER ASSOCIATION  
List of Principal Officials  
December 31, 2018**

<u>Name</u>	<u>Title</u>
Roy Pike .....	President
Carol Jameson .....	Vice President
April Munkres.....	Secretary / Treasurer
Ron Hicks .....	Director
Lucille Schneider .....	Director
Shirley Sells.....	Office Manager

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Brian Colon, New Mexico State Auditor and Board Members  
Southside Mutual Domestic Water Association  
Aztec, New Mexico

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities, which are comprised of the statement of net position as of December 31, 2018 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, which collectively comprise Southside Mutual Domestic Water Association basic financial statements as listed in the table of contents. We also have audited the statement of revenues, expenses – budget and actual (budgetary basis) of the Association for the year ended December 31, 2018, 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

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

An audit 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 opinions.

### Opinions

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, 2018, 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. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the statement of revenues, expenses – budget and actual (budgetary basis) of the Association for the year ended December 31, 2018, in conformity 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The schedule of pledged collateral, as required by 2.2.2 NMAC included as Other Information as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of pledged collateral 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 pledged collateral 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 16, 2019 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.

*David Berry, CPA, PC*

Farmington, New Mexico  
April 16, 2019



## **Management's Discussion and Analysis Year Ended December 31, 2018**

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, 2018.

### **Financial Highlights**

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2018 by \$773,042 (net position). This was a decrease of \$157,979 from December 31, 2017 net position of \$931,021. Of the December 31, 2018 net position, \$327,613 is unrestricted.
- The Association's financial position decreased in 2018 as compared to prior year. Net position decreased during the year by \$157,979. Operating revenues decreased by \$29,919 and operating expenses decreased by \$27,157. Depreciation expense of \$14,969 is included in operating expenses. Nonoperating revenues (expenses) net was (\$176,083) a decreased net position.
- The Association's cash and cash equivalents reflect \$325,038 at December 31, 2018. Of this total, \$17,310 is restricted for debt service. Accounts receivable from water sales to members was \$32,279 at December 31, 2018.

## 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, 2017 and 2018.

	<u>2017</u>	<u>2018</u>
<b>Assets</b>		
Current Assets	\$ 370,169	\$ 340,007
Non-Current Assets	824,195	691,534
Total Assets	<u>1,194,364</u>	<u>1,031,541</u>
<b>Liabilities</b>		
Current Liabilities	\$ 17,238	\$ 21,846
Non-Current Liabilities	246,105	236,653
Total Liabilities	<u>263,343</u>	<u>258,499</u>
<b>Net Position:</b>		
Net investment in capital Assets	\$ 568,801	\$ 445,429
Unrestricted	362,220	327,613
Total Net Position	<u>\$ 931,021</u>	<u>\$ 773,042</u>

### Analysis of Net Position

The Association's assets exceeded liabilities by \$773,042 at the close of the fiscal year. Net position consists of 58% Capital Assets (e.g. project works, buildings, equipment and water rights) less related debt of \$246,105. 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 of \$327,613 is available for the Association's ongoing operations.

The following table summarizes the Association's revenue, expenses, and changes in net position for the year ended December 31, 2017 and 2018:

**Revenue, Expenses and Changes in Net Position**

	<u>2017</u>	<u>2018</u>
Operating Revenues	\$ 344,411	\$ 314,492
Operating Expenses	<u>323,545</u>	<u>296,388</u>
Operating income (loss)	20,866	18,104
Nonoperating Revenues (Expenses)	<u>(559)</u>	<u>(176,083)</u>
Change in Net Position	\$ 20,307	\$ (157,979)

During the fiscal year, the Association's net position decreased by \$157,979. Nonoperating revenues (loss on abandoned treatment plant) decreased by \$176,083. The treatment plant project (with a cost of the project of \$180,934) was abandoned and recorded as a loss on the statement of revenues, expenses and changes in fund net position for the year ended December 31, 2018.

**Operating Revenues**

The following table summarizes the Association's operating revenues for the fiscal year ended December 31, 2017 and 2018:

	<u>2017</u>	<u>2018</u>
Charges for services	\$ 336,679	\$ 300,934
Other operating revenues	<u>7,732</u>	<u>13,558</u>
Total Operating Revenues	\$ 344,411	\$ 314,492

**Operating Expenses**

The following table summarizes the Association's operating expenses for the fiscal year ended December 31, 2017 and 2018:

	<u>2017</u>	<u>2018</u>
Personnel services	\$ 92,965	\$ 94,007
Maintenance, operations and contractual services	101,666	88,881
Water purchased for resale	71,612	67,174
Office expenses	39,429	31,357
Depreciation	<u>17,873</u>	<u>14,969</u>
Total Operating Expenses	\$ 323,545	\$ 296,388

**Non-Operating Revenues and Expenses**

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended December 31, 2017 and 2018:

	<u>2017</u>	<u>2018</u>
Interest income	\$ 582	\$ 1,706
Rental income	10,200	10,200
Interest expense	(11,341)	(7,055)
Loss on abandoned treatment plant	<u>-</u>	<u>(180,934)</u>
Total Nonoperating Revenues	\$ ( 559)	\$ (176,083)

## **Capital Assets and Long-Term Debt**

The Association added \$62,900 in capital assets (radio read meters) during the fiscal year ended December 31, 2018.

Depreciation expenses for the year ended December 31, 2018 and 2017, amounted to \$14,969 and \$17,873, respectively.

The Association made principal payments in the amount of \$9,289 and \$8,810 during the years ended December 31, 2018 and 2017, respectively.

## **Factors Impacting Future Periods**

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

## **Comparison of Budget to Actual**

Included in this report is a Budget Comparison Summary of the original budget to the final budget to the actual revenue and expenses. This report is required by the New Mexico State Auditor.

Operating revenues were under budget by \$41,608 due to decrease charges for services and other charges.

Total operating expenses were under/(over) budget by \$68,481. Personnel services were under/(over) budget by \$5,993; maintenance, operations and contractual services were under/(over) budget by \$28,869; water purchases were under/(over) budget by \$29,826; and office expenses were under/(over) budget by \$3,793.

Total Nonoperating revenues were over/(under) budget by \$4,851.

## **BASIC FINANCIAL STATEMENTS**

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

**December 31, 2018**

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<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 307,728
Accounts receivable, net	32,279
<b>Total Current Assets</b>	<u>340,007</u>
<b>NONCURRENT ASSETS:</b>	
Restricted cash	17,310
Water rights	220,973
Capital assets not being depreciated	115,241
Capital assets, net of accumulated depreciation	338,010
<b>Total Noncurrent Assets</b>	<u>691,534</u>
<b>Total Assets</b>	<u>\$ 1,031,541</u>
<b>LIABILITIES AND NET POSITION</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 4,530
Accrued taxes payable	7,864
Current portion of noncurrent liabilities	9,452
<b>Total Current Liabilities</b>	21,846
<b>NONCURRENT LIABILITIES:</b>	
Notes payable (noncurrent)	236,653
<b>Total Liabilities</b>	<u>258,499</u>
<b>NET POSITION:</b>	
Net investment in capital assets	445,429
Unrestricted	327,613
<b>Total Net Position</b>	<u>773,042</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 1,031,541</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, 2018**

<b>OPERATING REVENUES:</b>	
Charges for services	\$ 300,934
Other operating revenues	<u>13,558</u>
<b>Total Operating Revenues</b>	<u>314,492</u>
<b>OPERATING EXPENSES:</b>	
Personnel services	94,007
Maintenance, operations and contractual services	88,881
Water purchased for resale	67,174
Office expenses	31,357
Depreciation	<u>14,969</u>
<b>Total Operating Expenses</b>	<u>296,388</u>
<b>Operating Income (Loss)</b>	<u>18,104</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest income	1,706
Grant revenue	-
Rental income	10,200
Interest expense	(7,055)
Loss on abandoned treatment plant	<u>(180,934)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(176,083)</u>
<b>Change in net position</b>	(157,979)
<b>NET POSITION, beginning of year</b>	<u>931,021</u>
<b>NET POSITION, end of year</b>	<u><u>\$ 773,042</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, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Charges for services and other operating revenues	\$ 317,095
Payments to employees for salaries and benefits	(93,689)
Payments to suppliers	(182,349)
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>41,057</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Operating grants	-
<b>Net Cash Provided (Used) By Noncapital Financing Activities</b>	<u>-</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Rental income	10,200
Purchases of capital assets	(62,900)
Repayment of debt	(9,289)
Interest paid on capital debt	(7,055)
<b>Net Cash Provided (Used) By Capital and Related Financing Activities</b>	<u>(69,044)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received from investments	1,706
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**NET INCREASE IN CASH AND CASH EQUIVALENTS** (26,281)

**CASH AND CASH EQUIVALENTS, beginning** 351,319

**CASH AND CASH EQUIVALENTS, ending** \$ 325,038

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating income (loss)	\$ 18,104
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	14,969
Changes in:	
Accounts receivable	2,603
Prepaid expenses	936
Accounts payable	4,127
Accrued taxes payable	318
<b>Net Cash Provided (Used) By Operating Activities</b>	<u><u>\$ 41,057</u></u>

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



**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

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**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 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, and restricted cash, 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.

### **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. 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.

### **Presentation of Sales Tax**

The State of New Mexico imposes a gross receipts tax on the Association's sales to nonexempt customers. The Association collects the gross receipts tax from customers and remits the entire amount to the State. The Association's accounting policy is to exclude the tax remitted to the State from revenues and cost of sales.

### **Membership**

Members of the Association have purchased water meters, enabling them to receive regular water service. The membership fees paid by member of \$25 are recorded as fee income and reported on the statement of activities.

### **Fair Value of Financial Instruments**

The carrying amount of cash and cash equivalents, unconditional promises to give and liabilities approximate fair value because of the short maturities of these instruments.

### **Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the estimated future undiscounted cash flows attributable to the asset are less than the carrying value of the asset, fair value is determined and a loss is recognized for the difference between the carrying amount and the fair value of the asset.

### **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, 2015 through 2017, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2018, will expire in May 2021.

## **Budgets**

According to State statute, the Association adopts and approves an annual nonappropriated budget adopted on a cash (non-GAAP) basis. Budgetary control is prepared at the level of account classification, and serves as a management control device.

Once adopted, the Board is authorized to amend the budget at the account classification and fund level.

## **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 – LEGAL COMPLIANCE - BUDGETS

Prior to December 1, the System Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Board meetings are conducted to obtain comments. Prior to March 1, the budget is legally enacted through passage of a resolution. Budgets are adopted on a budget (non-GAAP) basis.

The System Manager is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors. Expenditures of the Association may not legally exceed expenditures.

### NOTE 4 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of December 31, 2018:

	<u>12/31/2018</u>
Demand deposits	\$ 253,886
Certificates of deposit	53,630
Total bank deposits	<u>307,516</u>
NMFA cash - restricted	17,310
Petty cash	212
Total cash and cash equivalents	<u><u>\$ 325,038</u></u>
Cash and cash equivalents	\$ 307,728
Restricted cash	17,310
Total cash and cash equivalents	<u><u>\$ 325,038</u></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. The pledged collateral cannot be an out of state security. As of December 31, 2018 the Association was in compliance with state statute and all deposits were covered by FDIC insurance. The carrying amount of the Association's deposits was \$307,516 and the bank balance was \$312,566 as of December 31, 2018. Of the bank balance, \$307,516 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.

**Restricted Cash.** In accordance with a debt agreement with the New Mexico Finance Authority, the Association is required to maintain a reserve account and a debt service account with the New Mexico Finance Authority.

## NOTE 5 – CAPITAL ASSETS

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

<b>Business-type activities</b>	Balance		Deletions	Balance	
	January 1, 2018	Additions		December 31, 2018	
Non-Depreciable Assets:					
Water rights	\$ 220,973	\$ -	\$ -	\$ 220,973	
Land	115,241	-	-	115,241	
Construction in progress	180,934	-	(180,934)	-	
Total Non-Depreciable Assets	<u>517,148</u>	<u>-</u>	<u>(180,934)</u>	<u>336,214</u>	
Depreciable Assets:					
Water system	411,803	62,900	-	474,703	
Buildings	345,776	-	-	345,776	
Equipment	48,537	-	(25,041)	23,496	
Total Depreciable Assets	<u>806,116</u>	<u>62,900</u>	<u>(25,041)</u>	<u>843,975</u>	
Total Governmental Assets	<u>1,323,264</u>	<u>62,900</u>	<u>(205,975)</u>	<u>1,180,189</u>	
Accumulated Depreciation:					
Water system	(346,043)	(6,251)	-	(352,294)	
Buildings	(121,626)	(8,587)	-	(130,213)	
Equipment	(48,368)	(131)	25,041	(23,458)	
Total Accumulated Depreciation	<u>(516,037)</u>	<u>(14,969)</u>	<u>25,041</u>	<u>(505,965)</u>	
Net Capital Assets	<u>\$ 807,227</u>	<u>\$ 47,931</u>	<u>\$ (180,934)</u>	<u>\$ 674,224</u>	

The treatment plant project (with a cost of the project of \$180,934) was abandoned and recorded as a loss on the statement of revenues, expenses and changes in fund net position for the year ended December 31, 2018.

## NOTE 6 - LONG-TERM DEBT

During the year ended December 31, 2018, the following changes occurred:

	Balance			Balance	Due Within
	12/31/2017	Additions	Deletions	12/31/2018	One Year
N/P - NMFA #1	\$ 111,164	\$ -	\$ (4,867)	\$ 106,297	\$ 4,964
N/P - NMFA #2	<u>144,230</u>	<u>-</u>	<u>(4,422)</u>	<u>139,808</u>	<u>4,488</u>
Total	<u>\$ 255,394</u>	<u>\$ -</u>	<u>\$ (9,289)</u>	<u>\$ 246,105</u>	<u>\$ 9,452</u>

### Note Payable – NMFA #1

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 (the project was abandoned in 2018). Repayment starts in 2017. The debt was finalized on May 19, 2016 for \$115,597. The debt is payable with monthly payments of \$591 that are held in trust to pay principal payments annually (May 1<sup>st</sup>) and interest payments (2.00%) semi-annually (May 1<sup>st</sup> and November 1<sup>st</sup>). The debt matures in 2036.

## **Note Payable – NMFA #2**

The Association entered into an agreement, dated September 18, 2015, with the New Mexico Finance Authority for a loan amount of \$151,308 to refinance the note payable with Citizens Bank. The original proceeds were used for the construction of an office building. The debt is payable with monthly payments (\$800) that are held in trust to pay principal payments annually (May 1<sup>st</sup>) and interest payments (variable rates from 0.50% to 4.21%) semi-annually (May 1<sup>st</sup> and November 1<sup>st</sup>). The debt matures in 2040.

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

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 9,452	\$ 7,140	\$ 16,592
2020	9,640	6,944	16,584
2021	9,844	6,731	16,575
2022	10,067	6,499	16,566
2023	10,306	6,255	16,561
2024-2028	55,578	27,117	82,695
2029-2033	63,672	18,826	82,498
2034-2038	59,525	8,710	68,235
2039-2040	18,021	783	18,804
Total	246,105	\$ 89,005	\$ 335,110
Less Current Portion	(9,452)		
	<u>\$ 236,653</u>		

## **NOTE 7 - PENSION PLAN**

The Association has not elected to be included in the New Mexico Public Employees Retirement Fund (PERA) and does not have any retirement plan in place for its employees.

## **NOTE 8 - SUPPLEMENTAL CASH FLOW DISCLOSURES**

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

Interest paid of \$7,055 during the year ended December 31, 2018.  
Income taxes paid during the year ended December 31, 2018 was \$0.

## **NOTE 9 - 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.

### **Equipment Commitment**

On November 6, 2018, the Association entered into a 36 month equipment lease for \$368 per month. The lease ends in November 2021. Annual rental payments are \$4,416, \$4,416 and \$4,048 for the years ended December 31, 2019, 2020 and 2021, respectively.

## **NOTE 10 – MAJOR SUPPLIER**

In accordance with an agreement dated July 5, 2005, the Association purchases substantially all of its water from the City of Aztec for delivery to its members. The agreement is currently an annual agreement. The cost of water purchased from the City during the year ended December 31, 2018 was \$67,174.

## **NOTE 11 – SUBSEQUENT EVENT**

The Association has evaluated events and transactions occurring subsequent to December 31, 2018, as of April 16, 2019, which is the date the financial statements were available to be issued. Subsequent events occurring after April 16, 2019 have not been evaluated by management. No material events have occurred since December 31, 2018 that requires recognition or disclosure in the financial statements.

## **NOTE 12 – RECENTLY ISSUED ACCOUNTING STANDARDS**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Association for annual periods in fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, *Deferral of the Effective Date*). The Organization has not yet determined the effect of the new standard on its current policies for revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Association for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. While the Association expects ASU 2016-02 to add significant right-of-use asserts and lease liabilities to the balance sheets, it is evaluating other effects that the new standard will have on the financial statements.

## **NOTE 13 – TAX ABATEMENT (GASB 77) REQUIRED DISCLOSURE**

The Association cannot levy taxes and therefore would not have any tax abatements. GASB 77 disclosures do not apply to the Association.



***SUPPLEMENTARY INFORMATION***

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**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION  
STATEMENT OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL (BUDGETARY BASIS)**

**Year Ended December 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 325,000	\$ 325,000	\$ 300,934	\$ (24,066)
Other	31,100	31,100	13,558	(17,542)
<b>Total Operating Revenues</b>	<b>356,100</b>	<b>356,100</b>	<b>314,492</b>	<b>(41,608)</b>
<b>OPERATING EXPENSES:</b>				
Personnel services	100,000	100,000	94,007	5,993
Maintenance, operations and contractual services	117,750	117,750	88,881	28,869
Water purchased for resale	97,000	97,000	67,174	29,826
Office expenses	35,150	35,150	31,357	3,793
<b>Total Operating Expenses</b>	<b>349,900</b>	<b>349,900</b>	<b>281,419</b>	<b>68,481</b>
<b>Operating Income (Loss)</b>	<b>6,200</b>	<b>6,200</b>	<b>33,073</b>	<b>26,873</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	-	-	1,706	1,706
Rental income	-	-	10,200	10,200
Interest expense	-	-	(7,055)	(7,055)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>-</b>	<b>-</b>	<b>4,851</b>	<b>4,851</b>
<b>Change in Net Position (Budgetary Basis)</b>	<b>\$ 6,200</b>	<b>\$ 6,200</b>	<b>37,924</b>	<b>\$ 31,724</b>
<b>RECONCILIATION TO CHANGE IN NET POSITION ON BASIC FINANCIAL STATEMENTS:</b>				
Depreciation			(14,969)	
Loss on abandoned treatment plant			(180,934)	
<b>Change in net position per basic financial statements</b>			<b>\$ (157,979)</b>	

**See accompanying notes to the basic financial statements.**

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## ***OTHER INFORMATION***

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**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION**  
**SCHEDULE OF PLEDGED COLLATERAL**  
**December 31, 2018**

	<b>Citizens Bank</b>	<b>Citizens Bank</b>	<b>Washington Federal</b>	<b>Total</b>
Demand deposits	\$ 137,188	\$ 116,699	\$ -	\$ 253,887
Certificates of deposit	-	-	53,629	53,629
Deposits, at December 31, 2018	<u>137,188</u>	<u>116,699</u>	<u>53,629</u>	<u>307,516</u>
FDIC Insurance	<u>137,188</u>	<u>116,699</u>	<u>53,629</u>	<u>307,516</u>
Uninsured amount	-	-	-	-
Less 50 percent	-	-	-	-
Amount requiring pledged collateral	-	-	-	-
Pledged collateral at December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of pledged collateral</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<b>Pledged collateral (market value)</b>				
Located at:	<b>Dallas, TX</b>			
None required	\$ -	\$ -	\$ -	\$ -
<b>Totals</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<b>Reconciliation to Financial Statements:</b>				
Total per banks	\$ 142,238	\$ 116,699	\$ 53,629	\$ 312,566
Reconciling items:				
Deposits in transit	-	-	-	-
Outstanding checks	(5,050)	-	-	(5,050)
Total per banks	<u>\$ 137,188</u>	<u>\$ 116,699</u>	<u>\$ 53,629</u>	<u>307,516</u>
Petty cash				212
Total per financial statements				<u><u>\$ 307,728</u></u>
Restricted cash - NMFA				<u><u>\$ 17,310</u></u>

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## ***COMPLIANCE SECTION***

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## **INDEPENDENT AUDITOR'S 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**

Brian Colon, New Mexico State Auditor and Board Members  
Southside Mutual Domestic Water Association  
Aztec, 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, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and the budgetary comparison, presented as supplementary information, and have issued our report thereon dated April 16, 2019.

### **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 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 responses, 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 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 responses (item 2015-001) to be material weaknesses.

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*.

### **Association's Responses 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 the 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.

*David Berry, CPA, PC*

**Farmington, New Mexico  
April 16, 2019**

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2018**

**A. Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the Association.
2. One material weakness was disclosed during the audit of the financial statements.
3. One instance of noncompliance material to the financial statements of the Association was disclosed during the audit.
4. A single audit was not required.

**B. Findings - Financial Statements Audit**

**Prior Year Findings**

**2015-001 – Not resolved and revised and repeated in current year**

**2016-002 – Resolved and not repeated in current year**

**Current Year Findings**

**2015-001 – Reconciliation of General Ledger Accounts (Material Weakness)**

**Condition**

Debt and restricted cash general ledger accounts were not reconciled to actual on a timely basis. Progress has been made on this deficiency. The new office manager has cleaned up the general ledger accounts and only the debt and restricted cash accounts were not reconciled to actual on a timely basis.

**Criteria**

A system of internal control over financial reporting includes reconciliation of general ledger accounts to actual on a timely basis.

**Cause**

Due to complexity of the NMFA statements (fiscal year reporting instead of calendar year reporting) and debt payment process, the related debt and restricted cash general ledger accounts were not reconciled to actual amounts on a timely basis.

**Effect**

Errors (intentional or unintentional) could occur and not be discovered on a timely basis.

**Recommendation**

The Association should adopt policies and procedures for controls over reconciliation of the general ledger balances to actual amounts on a timely basis.

Management Response

Corrective action plan for finding:

The office manager has been trained for reconciling the NMFA statements to the general ledger. The office manager will provide the reconciliation report to the board of directors on a monthly basis starting in June of 2019.

Timeline for completion of corrective action plan:

Beginning in May 2019, the debt and restricted cash NMFA statements will be obtained monthly and general ledger accounts will be reconciled to the NMFA statements on a monthly basis.

Employee position(s) responsible for meeting the timeline:

The office manager will be responsible for obtaining correct reports (calendar year totals instead of fiscal year totals) from the NMFA and for reviewing and approving the reconciliation of debt and restricted cash accounts to the general ledger accounts. The outside accounting consultant will be responsible for approving the reconciliations on a quarterly basis.

**C. Findings – Single audit not required**

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION  
EXIT CONFERENCE  
Year Ended December 31, 2018**

**A. Financial Statement Presentation**

The Association's financial statements were prepared with the assistance of 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. An exit conference was held on April 16, 2019. In attendance were:**

Southside Mutual Domestic Water Association:

Board Member ..... Ron Hicks  
Office Manager ..... Shirley Sells

David Berry, CPA, PC:

Auditor ..... David Berry, CPA

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