

STATE OF NEW MEXICO

Southside Mutual Domestic Water Association

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

DECEMBER 31, 2019



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INTRODUCTORY SECTION

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
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YEAR ENDED DECEMBER 31, 2019

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STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
OFFICIAL ROSTER
YEAR ENDED DECEMBER 31, 2019

<u>Name</u>	<u>Association Board</u>	<u>Title</u>
Ronald Hicks		President
Carol Jameson		Vice President
April Munkres		Treasurer/Secretary
Lucille Schneider		Director
Ray Prda		Appointed Director
	<u>Administration</u>	
Shirley Sells		Office Manager/Bookkeeper
Kirby Boxberger		Systems Manager

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FINANCIAL SECTION



Manning Accounting and Consulting Services, LLC

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Brian Colón
New Mexico State Auditor
and
Members of the Board
Southside Mutual Domestic Water Association
Blanco, New Mexico

We have performed the procedures enumerated below, which were agreed to by the State of New Mexico and Southside Mutual Domestic Water Association (Association), solely to assist you with respect to the Association's compliance for a Tier 6 engagement of the Audit Act (Section 12-6-3 NMSA 1978 and Section 2.2.2.16 NMAC) with respect to the Association's cash and capital assets as of December 31, 2019 and the Association's revenues, expenditures, and budget for the year ended December 31, 2019. The Association's management is responsible for the company's accounting records and financial information. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were engaged to perform the following agreed-upon procedures for the period January 01, 2019 to December 31, 2019 and our procedures and results are as follow:

1. Tiered System Reporting

Procedures:

Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

Results:

We reviewed the public body's revenue calculations and tier determination and determined that the Association is subject to a Tier 6 engagement.

2. Cash

Procedures:

- a. Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b. Test at least 30% of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

- c. Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results:

- a. We obtained copies of all bank statements and reconciliation for 2019 for the checking and savings accounts. Reconciliations are being performed timely but a secondary review of those reconciliations is not completed timely. See finding FS 2019-001 Bank Reconciliation Procedures.
- b. We randomly selected four months for review – March, June, September, and December – for the savings accounts and four months for the checking account – March, July, September, and December. We traced reconciled items for those months to determine that they were properly cleared. We inspected all cancelled check images and deposit slips returned with the bank statements to compare actual names and amounts with the general ledger. We traced ending balances to the general ledger and noted no differences with each of the reconciliations. However, the trust accounts with the New Mexico Finance Authority had not been adjusted to final statement balances at year-end. See finding FS 2019-001 Bank Reconciliation Procedures.
- c. We reviewed balances at each month end to determine if sufficient pledged collateral had been provided on all uninsured funds. The Association had no balances in excess of the FDIC coverage.

3. Capital Assets

Procedures:

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

Results:

The Association did not complete a yearly inventory of its capital assets and have that listing certified by its Board. See finding NM 2019-001 Annual Physical Inventory.

4. Debt

Procedures:

Identify if the local public body has any debt, verify that all required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

Results:

The Association has two loans with NMED which they made payments totaling \$16,592.18. We confirmed these payments were made in compliance with the loan amortization schedule.

5. Revenue

Procedures:

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- a. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues equal to at least 30% of the total dollar amount and test using the following attributes:

- b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Results:

- a. The Association has one basic revenue, water sales, with a few minor revenues – other income, interest income, and rental income – only one which is budgeted – other income. Budgeted revenue for water sales varied from actual revenues by \$35,377 or 10.3%, with actual revenues coming in at \$306,623 while the budget was \$342,000. The actual revenue was in line with the prior year’s revenue of \$300,934. Other income was budgeted at \$25,850 while actual revenue was \$12,432, a difference of \$13,418, or 51.9%. Again, other income was in line with the prior year which had been \$13,588. The two revenues which aren’t budgeted had revenues of \$2,355 for interest and \$2,900 for rental income.
- b. We tested general ledger amounts and amounts to bank statement deposits. There were no exceptions noted.
- c. We selected all receipts greater than \$1,600 (51) and randomly selected 25 additional selections from the remaining 478 receipts made for the year. Therefore, 76 of 529 receipts were tested. Total receipts were \$312,152 and the 77 tested totaled \$121,644 or 39.0% of total receipts. Deposit amounts were agreed to bank statements and to general ledger without exception.

6. Expenditures

Procedures:

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test using the following attributes:

- a. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor’s invoice, purchase order, contract and cancelled check, as appropriate.
- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results:

We selected all disbursements over \$5,000 (20) and randomly selected 25 additional selections from the remaining 456 disbursements made for the year. Therefore, 45 of 476 disbursements were tested. Total disbursements were \$373,211 and the 45 items selected accounted for \$151,223, or 40.5% of total disbursements.

- a. We tested each disbursement to ascertain the following:
 - Vendor invoice is clerically accurate
 - Purchase order (P.O.) is clerically accurate and initiated by purchasing agent prior to commitment of funds
 - Amount and payee per check agree to P.O. and invoice
 - P.O. is supported by proper quote or bid documentation as required by State Purchasing Requirements
 - Traced to general ledger
 - Does not violate Anti-Donation Laws
 - Receiving documents identify items received and when and who received them and that items are OK to pay
- a. We tested all disbursements according to the above criteria. The Association does not create purchase orders; and no receiving documentation in 7 of 45 items. See finding FS 2019-002 Purchase Orders and Payment Authorization.

- b. Very few invoices had a board member's signature; however, checks were signed by a member of the Board, normally two members of the board. See finding NM 2019-002 Purchase Orders and Payment Authorization. The Association completed their budget on time and expenditures did not exceed budgetary authority. No exceptions with the budget were noted.
- c. During our review of procedures related to the Procurement Code, we noted no exceptions to the bidding process as no purchases required the Association to go out for bid. However, we noted that board members are reimbursed \$100 per meeting which is in excess of the allowed rate of \$95 per meeting. See finding NM 2019-002 Improper Payment for Board Members.

7. **Journal Entries**

Procedures:

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:

- a. Journal entries appear reasonable and have supporting documentation.
- b. The local public body has policies and procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results:

- a. We obtained all manual journal entries for the period January 01, 2019 through December 31, 2019. There were several journal entries recorded in the fiscal year – the majority are for deposits from water sales. There were some additional entries for repairs and one bounced check. All other transactions were year-end transactions to record fixed assets, depreciation, and year-end liabilities. Journal entries are not printed out and reviewed by a second individual. See finding FS 2019-003 Improper Control Over Journal Entries.
- b. The Association does not have policies regarding journal entries. Journal entries have an indication of who made the journal entry and when. However, no secondary review of journal entries is completed. See finding FS 2019-003 Improper Control Over Journal Entries.

8. **Budget**

Procedures:

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.
- c. From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Results:

- a. The Association did establish a budget which was submitted to the DFA-LGD. The Association did complete one budget adjustments during the year which was properly completed. The three quarterly reports and the final report were also submitted to the DFA-LGD.
- b. The Association did not exceed their budget authority during the year.
- c. The Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) has been prepared; see page 9.

9. Capital Outlay Appropriations

Procedures:

The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital outlay appropriations of the New Mexico Legislature that meet Tier 5 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet the Tier 5 criteria. Perform the following tests on all state-funded capital outlay expenditures:

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b. Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results:

We reviewed all relevant documentation and interviewed a Board member and staff regarding any state-funded capital outlay awards. The Association received no capital outlay awards and had no such expenditures during the year under review. As such, no further procedures were performed in this area.

10. Other

Procedures:

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content detailed in Section 2.2.2.10(L) NMAC.

Results:

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies except as noted in the attached findings.

We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on the Association's cash and capital assets as of December 31, 2019 and the Association's revenue, expenditures, and budget for the year ended December 31, 2019. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management, others within the Association, the State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Manning Accounting and Consulting Services, LLC

Manning Accounting and Consulting Services, LLC

Kirtland, New Mexico

June 1, 2020

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SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES - BUDGET
AND ACTUAL (NON - GAAP BUDGETARY BASIS)
PROPRIETARY FUND
FOR THE YEAR ENDING DECEMBER 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
Water sales	\$ 342,000	\$ 342,000	\$ 306,623	\$ (35,377)
Other income	25,850	25,850	12,432	(13,418)
<i>Total operating revenues</i>	<u>367,850</u>	<u>367,850</u>	<u>319,055</u>	<u>(48,795)</u>
<i>Expenses:</i>				
Personnel services	35,500	55,500	57,324	(1,824)
Maintenance, Operations, and Contract Services	161,600	195,380	174,072	21,308
Water purchased for resale	97,500	97,500	70,870	26,630
Office Expenses	47,350	66,850	41,482	25,368
<i>Total operating expenses</i>	<u>341,950</u>	<u>415,230</u>	<u>343,748</u>	<u>71,482</u>
<i>Operating income (loss)</i>	<u>25,900</u>	<u>(47,380)</u>	<u>(24,693)</u>	<u>22,687</u>
<i>Nonoperating revenues (expenses):</i>				
Interest income	-	-	2,355	2,355
Rental income	-	-	2,900	2,900
Interest expense	-	-	(7,150)	7,150
<i>Total nonoperating revenues (expenses)</i>	<u>-</u>	<u>-</u>	<u>(1,895)</u>	<u>12,405</u>
<i>Change in net position (budgetary basis)</i>	<u>25,900</u>	<u>(47,380)</u>	<u>(26,588)</u>	<u>35,092</u>
<i>Reconciliation to change in net position on basic financial statements:</i>				
Depreciation			<u>(14,570)</u>	
<i>Change in net position per basic financial statements</i>			<u>\$ (41,158)</u>	

State of New Mexico
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
RESOLUTION No. 2019-4

Fiscal Year 2019 Final Quarter, Year-to-date Financial Report
Fiscal Year Ending December 31, 2019

WHEREAS, the Governing Body in and for **Southside Mutual Domestic Water Association**,

State of New Mexico, has developed a budget for Fiscal Year 2019, and

WHEREAS, the final quarterly report has been reviewed and approved to ensure the accuracy of the beginning balances used on Fiscal Year 2019 budget: and

WHEREAS, it is hereby certified that the contents in this report are true and correct to the best of our knowledge and that this report depicts all funds for the Fiscal year 2019,

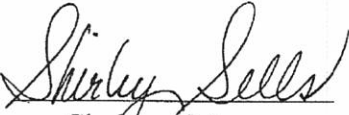
NOW THEREFORE, BE IT HEREBY RESOLVED the Board of
Southside Mutual Domestic Water Association,

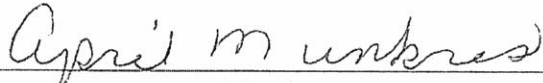
State of New Mexico, hereby approves the final quarterly report for Fiscal Year 2019 and respectfully requests approval from the Local Governmental Division of the Department of Finance and Administration.

RESOLVED: In Governing Body Sessions this 12th day of January 2019.


Attest:

Southside Mutual Domestic Water Association
Governing Board


Clerk or Notary

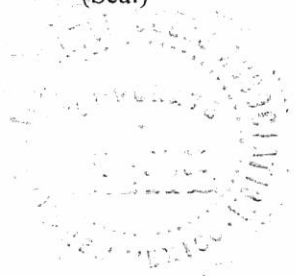

Member




Member


Member

(Seal)



INSTRUCTIONS: Cells in which are meant to be filled out are explained below. All other columns are locked and not meant to be filled out.

Fill out the Approved Budget, 1st Qtr, 2nd Qtr, 3rd Qtr, 4th Qtr columns.

Fill out Cash, Savings, CDs, Investments under the "Approved Budget" column with APPROVED BUDGET at beginning of yr. *THESE AMOUNTS DO NOT CHANGE THROUGHOUT THE YEAR.*

Fill out Reserves (if reserve amounts change throughout the year under the "Year to Date(YTD) Totals" column.

MDWCA Name: Southside Mutual Domestic Water Association

Mailing Address: 300 S. Ash Street

Email Address: swuassoc@qwestoffice.net

Phone number: 505.334.1414

Calendar Year 2019

January 1 - December 31

	APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct -Dec	Year to Date(YTD) Totals	YTD (over)/under BUDGET	% of Budget
Beginning balances:								
Cash	45,063							
Savings	97,175							
CDs	53,175							
Investments	116,699							
Beginning Balance TOTAL	\$ 312,112							
REVENUES								
Water Sales (Water Use Fees)	325,000	66,663	77,040	88,396	70,934	303,033		94%
Connection/Reconnection Charges	1,000	200	100	0	100	400		40%
Membership and Meter Sales (Utility Service Fees)	4,000	3,325	3,350	150	75	6,900		173%
Late Fees and Penalties (Other Fines and Forfeits)	6,650	1,163	1,382	1,404	1,363	5,312		80%
Gross Receipts Tax (Other State shared taxes)	17,000	3,830	3,544	4,413	4,531	16,318	(16,318)	
Other Operating Revenue (miscellaneous - other)	14,200	3,113	853	484	483	4,933		35%
Cost of Goods (Water Purchased)	(97,500)	(12,184)	(15,235)	(21,648)	(16,721)	(65,788)		67%
TOTAL	\$ 270,350	66,110	71,034	73,199	60,765	271,108		102%
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.	55,000	16,120	12,707	11,687	20,773	61,287		111%
Contract System Management	20,000	2,700	8,100	6,000	4,000	20,800		104%
Employee Benefits and Expenses	500	0	400	174	0	574		114%
Utilities - Electric, Gas, Water, Sewer, Telephone	6,900	2,570	1,953	1,983	2,387	8,893		129%
System Parts and Supplies	2,000	1,351	276	356	834	2,817		141%
System Repairs and Maintenance	107,980	41,461	16,497	14,026	22,877	94,861		88%
Vehicle Expenses	10,000	2,605	1,998	1,319	1,606	7,528		75%
Office and Administrative Expenses	9,200	3,397	1,290	1,079	1,334	7,100		77%
Professional Services - Accounting, Engineering, Legal	13,400	448	5,413	580	100	6,541		59%
Insurance	25,000	11,098	0	0	7,142	18,240		73%
Dues, Fees, Permits and Licenses	6,450	1,181	2,176	725	3,285	7,367		114%

Taxes - Gross Receipts Tax, Water Conservation Fee	17,000	3,830	3,544	4,413	4,531	16,318	(16,318)	
Training	1,500	0	100	0	0	100		6%
Miscellaneous	42,800	18,249	3,054	3,855	11,631	36,789		86%
Loans								
Annual debt service - Loan 1								
Annual debt service - Loan 2								
TOTAL	\$ 317,730	105,010	57,508	46,197	80,500	289,215		91%
Ending Balance	264,732					294,005		
LESS: Operating Reserve	42,043							
Emergency Reserve	57,386							
Capital Improvement Reserve	125,090							
Debt Reserve	17,016							
Ending Available Cash Balance	\$ 23,197							

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

Ronald Hicks
 President/Chairperson

1/29/20
 Date

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I – Financial Statement Findings

FS 2015-001 – Proper Reconciliation of General Ledger Accounts (Material Weakness) Repeated and Modified

Criteria: Good internal control practices dictate that all general ledger accounts should be properly and accurately reconciled on a timely basis to insure proper balances are maintained in those accounts. All general ledger accounts should be properly reconciled at least monthly.

Condition: During our review of general ledger accounts, we noted that the detail for reserve cash accounts, accounts receivable, payroll liability accounts, and debt accounts did not agree with the trial balance. The following accounts required adjustment:

- NMFA Reserve Cash - \$106.29
- NMFA Reserve Cash Southside 2 - (\$2,556.45)
- NMFA Reserve Funds Payable - \$421.09
- Accounts Receivable – \$3,820.14
- Accounts Payable - \$10,728.89
- Visa – (\$935.88)
- Payroll Liabilities - \$443.08
- Federal Withholding - \$33.22
- State Withholding - \$269.38
- Medicare - \$243.7
- Social Security - \$850.32
- Federal Unemployment - \$134.40
- State Unemployment – \$2,388.28
- Gross Receipts Tax Payable – (\$1,082.07)
- Sales Tax Payable – Audit Adjustment - \$2,188.00
- New Mexico Finance Authority Mortgage – (\$4,798.02)

Additionally, not all journal entries had been properly entered related to the prior audit which affected asset, liability, and equity accounts beginning in the current year.

No progress has been made on this finding during the current year.

Cause: Association personnel had not taken the time to review all asset and liability accounts and adjust them to their actual amounts. The billing system total did not agree to the QuickBooks total. The payroll liability accounts differences probably relate to mispostings of payments or accruals of payroll liabilities within the various payroll liability accounts maintained by the Association in prior years as most amounts were properly accounted for in the current year. The Association personnel were not sure how to post the debt payments to the New Mexico Finance Authority, so total payments were booked against the liability instead of being split between the liability and the interest expense.

Effect: Accounts receivable, payroll liability accounts, and debt accounts were improperly stated which also causes revenue and expenditure amounts to be misstated at year-end.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I – Financial Statement Findings (Continued)

FS 2015-001 – Proper Reconciliation of General Ledger Accounts (Material Weakness) Repeated and Modified

Auditor's Recommendation: We recommend that the Association review all general ledger accounts on a regular basis to identify any strange or unexpected balances being carried in the trial balance. We recommend that this be done on a monthly basis so that incorrect postings don't go unnoticed for long periods of time.

Responsible Official's Plan:

- Specific corrective action plan for finding:

Association personnel will review all general ledger accounts on a monthly basis.

- Timeline for completion of corrective action plan:

Effective June 2020

- Employee position(s) responsible for meeting the timeline:

Office Manager

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I – Financial Statement Findings (Continued)

FS 2019-001 – Bank Reconciliation Procedures (Significant Deficiency)

Criteria: In accordance with proper accounting procedures and 2.20.5.8 NMAC. Bank reconciliations should be reviewed and signed and dated by someone other than the individual completing the bank reconciliations.

Condition: The Association is completing the bank reconciliations in a timely manner; however, they are not reviewed by a second individual to confirm their accuracy in a timely manner. The reconciliations are only submitted for a secondary review and signature on a quarterly basis. However, the trust accounts with the New Mexico Finance Authority had not been adjusted in the general ledger to match the statements at year-end.

Additionally, the reconciliations have many old items, more than 12 months outstanding, which need to be removed from the reconciliation and cleared.

Cause: The Association has not followed proper internal control procedures.

Effect: The Association is unable to document that reconciliations were reviewed by a supervisor not responsible for bank transactions or a member of the Board in a timely manner.

Auditor's Recommendation: We recommend that all cash reconciliations be completed and be signed and dated by the individual performing the reconciliations and that they also be signed and dated by a member of the board to verify secondary review of the bank reconciliations. We recommend that these reconciliations and review of reconciliations occur within 30 days of month-end and they align with the general ledger. Additionally, we recommend that the trust statements from NMFA be adjusted monthly as well. Finally, old items on the reconciliation should be researched and cleared.

Responsible Official's View:

- Specific corrective action plan for finding:

Association personnel will sign and date all reconciliations. All old items will be researched and cleared. A Board Member will review all bank reconciliations and sign and date.

- Timeline for completion of corrective action plan:

Effective June 2020

- Employee position(s) responsible for meeting the timeline:

Office Manager and Board Member

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I – Financial Statement Findings (Continued)

FS 2019-002 – Purchase Orders and Payment Authorization (Significant Deficiency)

***Criteria:* [13-1-157 NMSA 1978](#) Receipt; inspection; acceptance or rejection of deliveries.**

The using agency is responsible for inspecting and accepting or rejecting deliveries. **The using agency shall determine whether the quantity is as specified in the purchase order or contract and whether the quality conforms to the specifications referred to or included in the purchase order or contract.** If inspection reveals that the delivery does not conform to the quantity or quality specified in the purchase order or contract, the using agency shall immediately notify the central purchasing office. The central purchasing office shall notify the vendor that the delivery has been rejected and shall order the vendor to promptly make a satisfactory replacement or supplementary delivery. In case the vendor fails to comply, the central purchasing office shall have no obligation to pay for the nonconforming items of tangible personal property. If the delivery does conform to the quantity and quality specified in the purchase order or contract, the using agency shall certify to the central purchasing office that delivery has been completed and is satisfactory.

Additionally, [13-1-158 NMSA 1978](#) states:

“No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications or unless prepayment is permitted under [Section 13-1-98](#) NMSA 1978 by exclusion of the purchase from the Procurement Code [[13-1-28](#) NMSA 1978].”

Condition: During our review of disbursements we noted the following issues:

- In 20 of the 45 transactions there was no purchase order created to encumber the funds expended.
- In 7 of the 45 transactions reviewed there was no receiving documentation.

Cause: Association personnel have not followed state guidelines for the payment of goods and services and retention of documentation. Policy clearly states that the Association must have a signed purchase order in place prior to purchasing goods and or services and that there is a receiving document to verify goods and services are received.

Effect: Internal control over expenditures and the ability of responsible parties to appropriately monitor budgets for which they bear responsibility may be compromised. Not being in compliance with these requirements places the Association and the Board at risk for fraud or misuse of public funds.

Auditor’s Recommendation: We recommend that all personnel be reminded of, or trained in, state policy in regard to payment of goods, services, or construction. All Association personnel need to be aware that a purchase order must be approved prior to expenditure of monies for goods and services and that all goods and services should be signed for indicating when items were received and by whom, and that the Association maintain sufficient documentation on these expenditures.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I – Financial Statement Findings (Continued)

FS 2019-002 – Purchase Orders and Payment Authorization (Significant Deficiency)

Responsible official's view:

- Specific corrective action plan for finding:

The Association will implement a purchase order program, obtaining all necessary documents and approvals. Personnel will sign when items are received and by whom.

- Timeline for completion of corrective action plan:

June 2020

- Employee position(s) responsible for meeting the timeline:

Field Manager and Office Manager

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I – Financial Statement Findings (Continued)

FS 2019-003 – Improper Control over Journal Entries (Significant Deficiency)

Criteria: Good accounting procedures require that all manual journal entries should have proper supporting documentation and be reviewed by at least one individual besides the individual creating the journal who should sign and date the journal entry. This should be performed in order to detect errors and to prevent improper movement of funds. This provides an internal deterrent to errors, fraud, and misappropriation of assets.

Condition: During review of journal entries we identified that the Association did not print out journal entries. Additionally, the Association did not have any secondary review of the journal entries nor indication of a board member signing those journal entries.

Cause: Per discussion with the current office manager, the Association had not ever considered the necessity to review journal entries. It is not an item which the board has ever considered.

Effect: The Association has no internal control which would deter the office manager from performing journal entries which have no valid reason for entry. This leaves the Association open to errors, fraud, and misappropriation of assets.

Auditor's Recommendation: We recommend the Association ensure all manual journal entries have additional supporting documentation which identifies the amounts and reasons for the journal entries. These journal entries should be printed, signed and dated by the individual performing the journal entry, and maintained for further review. Additionally, a member of the board should review each journal entry on a timely basis and sign and date the journal entry as well.

Responsible Official's Plan:

- Specific corrective action plan for finding:

All journal entries will be printed, signed and dated by Office Manager and Board Members will review, sign and date.

- Timeline for completion of corrective action plan:

June 2020

- Employee position(s) responsible for meeting the timeline:

Office Manager and Board Members

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section II – 12-6-5 NMSA 1978 Findings

NM 2019-001 – Annual Physical Inventory (Other Non-compliance)

Criteria: 12-6-10 NMSA. Annual inventory.

A. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. This inventory shall include all movable chattels and equipment procured through the capital program fund under Section 15-3B-16 NMSA 1978, which are assigned to the agency designated by the director of the facilities management division of the general services department as the user agency. The inventory shall list the chattels and equipment and the date and cost of acquisition. No agency shall be required to list any item costing five thousand dollars (\$5,000) or less. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files. At the time of the annual audit, the state auditor shall ascertain the correctness of the inventory by generally accepted auditing procedures.

Condition: The Association did not do a physical inventory which was detailed and certified by the Board for the year ended December 31, 2019.

Cause: The Association was unaware of the requirement to do an annual physical inventory and have that inventory certified by its board. As such, no inventory was completed because the Association didn't know of the requirement until 2020.

Effect: The Association is not in compliance with state statutes with regards to completing an annual physical inventory that is certified by the Board.

Auditor's Recommendation: We recommend that the Association record its assets in a detail register and complete an annual physical inventory which will be certified by the Board at its annual meeting to be in compliance with state statutes.

Responsible Official's Plan:

- Specific corrective action plan for finding:

The Association will record all assets and an annual inventory which will approved at annual meeting.

- Timeline for completion of corrective action plan:

List will be complied by end of June, 2020 for Board approval.

- Employee position(s) responsible for meeting the timeline:

Field Manager, Office Manager and Board Members

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section II 12-6-5 NMSA 1978 Findings (Continued)

NM 2019-002 – Improper Payment for Board Members (Other Non-compliance)

Criteria: 2.42.2.8 NMAC PER DIEM RATES PRORATION:

C. Board, commission and committee members: Nonsalaried public officers may receive per diem as follows:

(1) Official board, commission and committee meetings:

(b) Local nonsalaried public officers: Nonsalaried public officers of the state may elect to receive either:

(i) \$95.00 per meeting day for attending each board or committee meeting; or
(ii) per diem rates in accordance with subsection B of this Section provided that the local governing body has not established a lesser rate.

(3) Members serving in dual capacities: Nonsalaried public officers who also serve as public officers or employees of state agencies or local public bodies may receive mileage or per diem rates from only one public entity for any travel or meeting attended. Furthermore, nonsalaried public officers who are also public officers or employees may not receive per diem rates for attending meetings held in the place of their home or at their designated posts of duty unless they are on leave from their positions as public officers or employees. Local public bodies may adopt regulations with respect to the receipt of per diem rates by employees or officers of local public bodies who also serve on commissions subject to this rule.

Condition: The Association has established a \$100 per meeting to members of their board for their duties and attendance at monthly board meetings. This stipend is provided to the board member only when they attend the meetings.

Cause: The Association was unaware of the limits and guidelines established for payment of board members for fulfilling the requirements of their position on the board.

Effect: The Association is improperly paying its board members in amounts that exceed state established limits.

Auditor's Recommendation: We recommend that the Association change its reimbursement policy to include only \$95.00 per meeting and only pay the amount in months where the board member has attended the established meeting. In months where more than one meeting is held, the Association may reimburse the members for each meeting. If the Association has a member who is also employed by the Association, then the Association needs to establish a policy as to whether this member may be paid the salary and/or the meeting stipend. Per guidelines, this individual may not receive both unless specifically established by the local public body.

Responsible Official's Plan:

- Specific corrective action plan for finding:

The amount will be reduced to \$95.00 for all Board meetings.

- Timeline for completion of corrective action plan:

Effective with June Staff and Board Meetings

- Employee position(s) responsible for meeting the timeline:

Board Members

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
OTHER DISCLOSURES
FOR THE YEAR ENDED DECEMBER 31, 2019

Exit Conference

The contents of this report were discussed on June 1, 2020. The following individuals were in attendance.

Southside Mutual Domestic Water Association

Ronald Hicks, Board President

Shirley Sells, Office Manager/Bookkeeper

Manning Accounting and Consulting Services, LLC

Byron R. Manning, CPA, Managing Partner

STATE OF NEW MEXICO

Southside Mutual Domestic Water Association

COMPILATION REPORT OF INDEPENDENT
ACCOUNTANTS AND FINANCIAL STATEMENTS

DECEMBER 31, 2019



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INTRODUCTORY SECTION

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
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YEAR ENDED DECEMBER 31, 2019

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STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
OFFICIAL ROSTER
YEAR ENDED DECEMBER 31, 2019

<u>Name</u>	<u>Association Board</u>	<u>Title</u>
Ronald Hicks		President
Carol Jameson		Vice President
April Munkres		Treasurer/Secretary
Lucille Schneider		Director
Ray Prda		Appointed Director
	<u>Administration</u>	
Shirley Sells		Office Manager/Bookkeeper
Kirby Boxberger		Systems Manager

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FINANCIAL SECTION



Manning Accounting and Consulting Services, LLC

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Mr. Brian Colón
New Mexico State Auditor
and
Members of the Board
Southside Mutual Domestic Water Association
Aztec, New Mexico

Management is responsible for the accompanying financial statements of the business-type activities of Southside Mutual Domestic Water Association (the "Association") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America.

We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has omitted the *Management's Discussion and Analysis* that governmental accounting principles accepted in the United States of America require 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 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.

Manning Accounting and Consulting Services, LLC

Manning Accounting and Consulting Services, LLC
Kirtland, New Mexico
June 1, 2020

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2019

Exhibit A-1

ASSETS

Current assets

Cash and cash equivalents	\$	264,492
Receivables (net of allowance for uncollectibles)		39,490
<i>Total current assets</i>		303,982

Noncurrent assets

Restricted cash and equivalents		17,716
Capital assets		
Land		115,241
Water rights		220,973
Water system		474,702
Buildings and building improvements		336,672
Furniture, fixture, and equipment		11,778
Less: accumulated depreciation		(499,712)
<i>Total noncurrent assets</i>		677,370
<i>Total assets</i>	\$	981,352

LIABILITIES

Current liabilities

Accounts payable	\$	10,729
Sales tax payable		1,756
Accrued liabilities		330
Current maturities of:		
Loans payable		9,640
<i>Total current liabilities</i>		22,455

Noncurrent liabilities:

Loans payable		227,013
<i>Total noncurrent liabilities</i>		227,013

NET POSITION

Invested in capital assets		423,001
Restricted for:		
Debt service		17,716
Unrestricted net assets		291,167
<i>Total net position</i>		731,884
<i>Total liabilities and net position</i>	\$	981,352

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDING DECEMBER 31, 2019

Exhibit A-2

OPERATING REVENUES	
Water sales	\$ 306,623
Other operating revenues	<u>12,432</u>
<i>Total operating revenues</i>	<u>319,055</u>
OPERATING EXPENSES	
Personnel services	57,324
Maintenance, operations, and contractual services	174,072
Water purchased for resale	70,870
Office expenses	41,482
Depreciation	<u>14,570</u>
<i>Total operating expenses</i>	<u>358,318</u>
<i>Operating income (loss)</i>	<u>(39,263)</u>
OTHER INCOME (EXPENSE)	
Interest income	2,355
Rental income	2,900
Interest expense	<u>(7,150)</u>
<i>Total other income (expense)</i>	<u>(1,895)</u>
CHANGE IN NET POSITION	(41,158)
NET POSITION - BEGINNING OF YEAR	<u>773,042</u>
NET POSITION - END OF YEAR	<u><u>\$ 731,884</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDING DECEMBER 31, 2019

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 310,708
Cash payments to employees	(61,966)
Cash payments to vendors for goods and services	(280,225)
Net cash provided (used) by operating activities	(31,483)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on long-term debt	(9,452)
Interest payments on long-term debt	(7,150)
Rental income	2,900
Change in restricted cash	(406)
Net cash provided (used) by financing activities	(14,108)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	2,355
Net cash provided (used) by capital and investing activities	2,355

Net increase (decrease) in cash and cash equivalents (43,236)

Cash and cash equivalents, beginning of period 307,728

Cash and cash equivalents, end of period \$ 264,492

Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	\$ (39,263)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	14,570
(Increase) decrease in operating assets:	
Customer receivables	(7,211)
Increase (decrease) in operating liabilities:	
Accounts payable	6,199
Sales tax payable	(1,136)
Accrued payroll liabilities	(4,642)
Net cash provided (used) by operating activities	\$ (31,483)

Cash paid during the year:

Interest	\$ 7,150
Income taxes	-
	\$ 7,150.00

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 **Summary of Significant Accounting Policies**

Southside Mutual Domestic Water Association (the “Association”) is a not-for-profit Mutual Domestic Association established under 1978 NMSA 3.29.1 through 3.29.21, the Sanitary Projects Act, and as a subdivision of the State of New Mexico. 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. The Board of Directors is the basic level of government, which consists of five elected members whom must be members in good standing of the Association, and has oversight responsibility and control over all activities related to the Association. The Association is located in Aztec, New Mexico and serves the San Juan County area for the purpose of acquire, construct, install, maintain and operate a water system for supplying and distribution of water for domestic use and to engage in any activity thereto. The Association receives funding from local and state government sources and must comply with the requirements of these funding source entities. The Association’s financial statements include all entities over which the Board of Directors exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

An Attorney General’s (AG) opinion (90-30, dated December 27, 1990) concludes that entities created under the Sanitary Projects Act (SPA) are subjected 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.

The summary of significant accounting policies of the Association is presented to assist in the understanding of the Association’s financial statements. The financial statements and notes are the representation of Southside Mutual Domestic Water Association’s management who is responsible for their integrity and objectivity. The financial statements of the Association conform to Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The basis, but not the only criterion for including a potential component unit within the reporting entity, is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criteria used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the Association does not have a component unit and is not a component unit of another government agency.

B. Proprietary Financial Statement Presentation

The proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 Summary of Significant Accounting Policies (Continued)

B. Proprietary Financial Statement Presentation

The entity uses a proprietary fund to record all of its transactions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Association's enterprise fund is charged to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, and Net Position or Equity

Cash and Temporary Investments: The Association's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the investment of the Association's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Association is also allowed to invest in United States Government obligations. All funds for the Association must follow the above investment policies.

Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more banks or savings and loan within the geographical boundaries of the Association. Deposits may be made to the extent that are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution. The rate of interest on non-demand interest-bearing accounts shall be set by The State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States Treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments. Investments for the Association are reported at fair value.

Receivables and Payables: The accounts receivable reported in the Statement of Net position and an allowance for doubtful accounts has been recorded. Receivables are recognized when services are rendered and revenue has been earned. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets: The Association's policy is to capitalize all disbursements for equipment in excess of \$5,000 and an estimated useful life of greater than one year. Property and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities. The Association's assets have the following estimated useful lives:

Equipment	5 - 7 years
Water system and improvements	5 - 20 years
Buildings and improvements	5 - 39 years

Compensated Absences: The Association does not pay any amounts for unused leave upon termination; therefore, amounts are not accrued.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position or Equity (Continued)

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 costs 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.

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

Net Position or Fund Equity: Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. In the government-wide financial statements, fund equity is classified as net position and is displayed in three components:

Net investment in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Restricted Net Position: Consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (b) law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The restricted component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted Net Position: All other net position that does not meet the definition of "restricted" or "invested in capital assets."

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. In the governmental environment, Net Position often is designated to indicate that management does not consider them to be available for general operations. In contrast to restricted Net Position, these types of constraints on resources are internal and management can remove or modify them. However, enabling legislation established by the reporting government should not be construed as an internal constraint.

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 eligibility requirements are met.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position or Equity (Continued)

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

Operating expenses include activities that have the characteristics of an exchange transaction, such as 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, 2016 through 2018, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2019, will expire in May 2022

Use of Estimates. The preparation of the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 Stewardship, Compliance and Accountability

Budgetary Information

A budget for the General Fund is prepared by management and approved by the Board of Supervisors and the State Department of Finance and Administration. This budget is prepared on the Non-GAAP cash basis, excluding encumbrances, and secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year.

Actual expenditures may not exceed the budget on a line item basis, i.e., each budgeted expenditure must be within budgeted amounts. Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a 'series', this may be accomplished with only local Board of Supervisors approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from State Department of Finance and Administration.

The Association has not followed budgetary guidelines with the State so the financial statements do not present any budgetary information. The Association is supposed to comply with the following procedures in establishing the budgetary data which would normally be reflected in the financial statements:

1. Prior to January 1, the management submits to the Board of Supervisors a proposed operating budget of the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them and has been approved by the State Department and Finance Administration.

STATE OF NEW MEXICO
SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 Stewardship, Compliance and Accountability

Budgetary Information

2. Prior to January 1, the budget is approved or adjusted and approved by the Board of Supervisors.
3. Prior to January 1, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of approved budget.
4. Formal budgetary integration is employed as a management control device during the year.

The board may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. New Mexico state law prohibits a governmental agency from exceeding an individual line item.

NOTE 3 Cash and Cash Equivalents

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest-bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

New Mexico state statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Association for at least one half of the amount on deposit with the institution in excess of federal deposit insurance. The schedule listed below will meet the State of New Mexico Office of the State Auditor's requirements in reporting the insured portion of the deposits.

The funds are maintained in interest-bearing and non-interest-bearing checking and savings accounts in Citizens Bank and High Desert Credit Union. The types of collateral allowed are limited by the section 6-10-16, NMSA 1978.

	Restricted Cash			<u>Total</u>
	<u>Citizens Bank</u>	<u>High Desert Credit Union</u>	<u>New Mexico Finance Authority</u>	
Total amounts of deposits	\$ 159,890	\$ 118,521	\$ 17,716	\$ 296,127
FDIC coverage	<u>159,890</u>	<u>118,521</u>	<u>17,716</u>	<u>\$ 296,127</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Reconciliation to Statement of Net Position

Cash and cash equivalents per statement	\$ 282,208
Add outstanding checks and other reconciling items	14,131
Less: petty cash	<u>(212)</u>
Bank balance of deposits	<u>\$ 296,127</u>

The Association's cash balances are not greater than the limit of FDIC coverage and as such do not have a need for pledged collateral.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

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NOTE 3 Cash and Cash Equivalents (Continued)

Deposits – The risk exists when a portion of the Association’s deposits are not covered by depository insurance and are:

1. Uncollateralized;
2. Collateralized with securities held by the pledging financial institution; or
3. Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the depositor’s (Association’s) name.

Interest Rate Risk – Interest rate risk is the risk that the fair value of the investments will change due to changes in the rate of interest applied to those investments.

Restricted Cash – In accordance with debt agreements 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 4 Receivables

Receivables as of December 31, 2019 consist primarily of billings for periodic water and sewer services to its members.

NOTE 5 Capital Assets

A summary of capital assets and changes occurring during the year ended December 31, 2019 follows. Land and water rights are not subject to depreciation.

At December 31, 2019, the Association had no construction agreements in place. Depreciation has been allocated to the following functions at December 31, 2019:

	Balance December 31, 2018	Additions	Deletions	Adjustments	Balance December 31, 2019
Capital assets used in governmental activities:					
Capital assets not being depreciated:					
Land	\$ 115,241	\$ -	\$ -	\$ -	\$ 115,241
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>115,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,241</u>
Capital assets being depreciated:					
Land improvements	474,702	-	-	-	474,702
Buildings and building improvements	345,776	-	(9,103)	-	336,672
Furniture, fixtures, and equipment	23,497	-	(11,719)	-	11,778
Vehicles	-	-	-	-	-
Total capital assets being depreciated	<u>843,974</u>	<u>-</u>	<u>(20,822)</u>	<u>-</u>	<u>823,152</u>
Less accumulated depreciation:					
Land improvements	352,294	5,945	-	-	358,239
Buildings and building improvements	130,212	8,586	(9,103)	-	129,695
Furniture, fixtures, and equipment	23,458	39	(11,719)	-	11,778
Vehicles	-	-	-	-	-
Total accumulated depreciation	<u>505,964</u>	<u>14,570</u>	<u>(20,822)</u>	<u>-</u>	<u>499,712</u>
Total capital assets, net of depreciation	<u>\$ 453,251</u>	<u>\$ (14,570)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 438,681</u>

The Schedule of Capital Assets Used by Source, and the Schedule of Changes in Capital Assets by Function and Activity have not been prepared because the detailed information is unavailable.

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NOTE 6 Long-Term Debt

During the year ended December 31, 2019, the following changes occurred:

	Balance at 12/31/18	Additions	Deletions	Balance at 12/31/19	Due Within One Year
NMFA Lease Purchase Notes	\$ 246,105	\$ -	\$ 9,452	\$ 236,653	\$ 9,640
Total	<u>\$ 246,105</u>	<u>\$ -</u>	<u>\$ 9,452</u>	<u>\$ 236,653</u>	<u>\$ 9,640</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 started 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 payment annually (May 1st) and interest payments (2.00%) semi-annually (May and November 1st). 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 1st) and interest payments (variable rates from 0.5% to 4.21%) semi-annually (May 1st and November 1st). The debt matures in 2040.

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

Fiscal Year Ending June 30,	NMFA Lease Purchase Note		Total Debt Service
	Principal	Interest	
2020	\$ 9,640	\$ 6,944	\$ 16,584
2021	9,844	6,730	16,574
2022	10,067	6,500	16,567
2023	10,306	6,255	16,561
2024	10,557	5,995	16,552
2025-2029	57,043	25,615	82,658
2030-2034	65,533	16,923	82,456
2035-2040	63,663	6,901	70,564
Totals	<u>\$ 236,653</u>	<u>\$ 81,863</u>	<u>\$ 318,516</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 Risk Management

The Association is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The Association has purchased commercial insurance that transfers risks of loss to an unrelated party. The Association has not sustained any losses during the last several years and is not a defendant in any lawsuit.

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NOTE 9 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, and \$4,048 for the years ended December 31, 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, 2019 was \$70,870.

NOTE 11 Subsequent Events

A review of subsequent events through June 1, 2020, which is the date the financial statements were available to be issued, indicated nothing of audit significance.