

**SOUTHSIDE MUTUAL DOMESTIC  
WATER ASSOCIATION  
AUDITED FINANCIAL STATEMENTS  
Year Ended December 31, 2015**

## **INTRODUCTORY SECTION**

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**SOUTHSIDE MUTUAL DOMESTIC  
WATER ASSOCIATION  
List of Principal Officials  
December 31, 2015**

<u><b>Name</b></u>	<u><b>Title</b></u>
Vaughn Campbell .....	President
Lee Truitt .....	Vice President
Rosemary Needham.....	Secretary / Treasurer
April Munkres.....	Director
Ron Hicks .....	Director
Rick Mitchell .....	System Manager
Amy Rhoades .....	Office Manager

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Tim Keller, New Mexico State Auditor and Board Members  
Southside Mutual Domestic Water Association  
Flora Vista, New Mexico

### Report on Financial Statements

We have audited the accompanying basic financial statements of the business-type activities, which are comprised of the statements of net position as of December 31, 2015 and statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, of the Southside Mutual Domestic Water Association.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southside Mutual Domestic Water Association as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

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

### ***Other Information***

The schedules of pledged collateral and vendors have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on the schedule.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 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  
October 31, 2016**



## **Management's Discussion and Analysis Year Ended December 31, 2015**

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, 2015.

### **Financial Highlights**

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2015 by \$861,364 (net position). This was an increase of \$117,834 from December 31, 2014 net position of \$743,530. Of the December 31, 2015 net position, \$326,671 is unrestricted.
- The Association's financial position increased in 2015 as compared to prior year. Net position increased during the year by \$117,834. Operating revenues decreased by \$3,948 and operating expenses decreased by \$39,941. Depreciation expense of \$20,350 is included in this increase of net position. Nonoperating revenues (grant revenue) of \$50,000 was a main increase in net position.
- The Association's cash and cash equivalents reflect \$298,650 at December 31, 2015. Accounts receivable from water sales to members was \$33,763 at December 31, 2015.
- The Association's refinanced short-term debt with long-term debt in 2015.

## 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, 2015 and 2014.

### Net Position, as of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current Assets	\$ 342,744	\$ 304,998
Capital Assets, Net	623,583	545,121
Non-Current Assets	<u>230,569</u>	<u>220,973</u>
Total Assets	1,196,896	1,071,092
<b>Liabilities</b>		
Current Liabilities	\$ 47,436	\$ 299,228
Non-Current Liabilities	<u>288,096</u>	<u>28,334</u>
Total Liabilities	335,532	327,562
<b>Net Position:</b>		
Net investment in		
capital Assets	\$ 534,693	\$ 453,308
Unrestricted	<u>326,671</u>	<u>290,222</u>
Total Net Position	\$ 861,364	\$ 743,530

### Analysis of Net Position

The Association's assets exceeded liabilities by \$861,364 at the close of the fiscal year. Net position consists of 62% Capital Assets (e.g. project works, buildings, equipment and water rights) less related debt or \$534,693. The Association uses these capital assets in its mission to deliver treated water to members in the Association's service area; consequently, these assets are not available for future spending. Unrestricted net position is available for the Association's ongoing operations and is \$326,671.

The following table summarizes the Association's revenue, expenses, and changes in net position for the year ended December 31, 2015 and 2014:

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

	<u>2015</u>	<u>2014</u>
Operating Revenues	\$ 356,674	\$ 360,622
Operating Expenses	<u>283,106</u>	<u>323,047</u>
Operating income (loss)	73,568	37,575
Nonoperating Revenues (Expenses)	<u>44,266</u>	<u>78,056</u>
Change in Net Position	\$ 117,834	\$ 115,631

During the fiscal year, the Association's net position increased by \$117,834. Nonoperating revenues (grant revenue and rental) increased by \$44,266.

The Association's does not legally adopt a budget.

**Operating Revenues**

The following table summarizes the Association's operating revenues for the fiscal year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Charges for services	\$ 356,674	\$ 360,622
Other operating revenues	<u>-</u>	<u>-</u>
Total Operating Revenues	\$ 356,674	\$ 360,622

**Operating Expenses**

The following table summarizes the Association's operating expenses for the fiscal year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Personnel services	\$ 99,334	\$ 115,238
Maintenance, operations and contractual services	60,844	88,271
Water purchased for resale	76,710	75,859
Office expenses	25,868	24,627
Depreciation	<u>20,350</u>	<u>19,052</u>
Total Operating Expenses	\$ 283,106	\$ 323,047

**Non-Operating Revenues and Expenses**

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest income	\$ 222	\$ 491
Grant revenue	50,000	77,800
Rental income	5,950	10,270
Interest expense	<u>(11,906)</u>	<u>(10,505)</u>
Total Nonoperating Revenues	\$ 44,266	\$ 78,056

## Capital Assets and Long-Term Debt

The Association added \$85,000 in water rights; \$84,574 in water line improvements; and \$70,515 construction on progress on water treatment plant, during the fiscal year ended December 31, 2014.

The Association added \$98,812 in capital assets during the fiscal year ended December 31, 2015.

Depreciation expenses for the year ended December 31, 2015 and 2014, amounted to \$20,350 and \$19,052, respectively.

The Association issued debt of \$182,604 (\$151,308 refinancing debt and \$31,296 for water treatment plant) during the year ended December 31, 2015.

The Association made principal payments in the amount of \$175,931 (\$140,195 refinancing debt) and \$35,169 during the years ended December 31, 2015 and 2014, respectively.

## Factors Impacting Future Periods

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

The Association has active construction projects as of December 31, 2015 as follows:

<u>Project</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
Treatment plant.....	\$ 167,644	\$ 2,178

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

The treatment plant project was terminated in May 2016 and the costs of assets will be expensed or depreciated in 2016, over the various lives of the related assets and the debt will be paid off in accordance with the terms of the debt.

## Comparison of Budget to Actual

The Association does not legally adopt a budget.

## **BASIC FINANCIAL STATEMENTS**

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

**December 31, 2015**

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<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 298,650
Accounts receivable, net	33,763
Prepaid expenses	10,331
<b>Total Current Assets</b>	<u>342,744</u>
<b>NONCURRENT ASSETS:</b>	
Restricted cash	9,596
Water rights	220,973
Capital assets not being depreciated	296,175
Capital assets, net of accumulated depreciation	327,408
<b>Total Noncurrent Assets</b>	<u>854,152</u>
<b>Total Assets</b>	<u>\$ 1,196,896</u>
<b>LIABILITIES AND NET POSITION</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 8,555
Accrued taxes payable	7,518
Current portion of noncurrent liabilities	31,363
<b>Total Current Liabilities</b>	47,436
<b>NONCURRENT LIABILITIES:</b>	
Notes payable (noncurrent)	288,096
<b>Total Liabilities</b>	<u>335,532</u>
<b>NET POSITION:</b>	
Net investment in capital assets	534,693
Unrestricted	326,671
<b>Total Net Position</b>	<u>861,364</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 1,196,896</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, 2015**

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<b>OPERATING REVENUES:</b>	
Charges for services	\$ 356,674
Other operating revenues	<u>-</u>
<b>Total Operating Revenues</b>	<u>356,674</u>
<b>OPERATING EXPENSES:</b>	
Personnel services	99,334
Maintenance, operations and contractual services	60,844
Water purchased for resale	76,710
Office expenses	25,868
Depreciation	<u>20,350</u>
<b>Total Operating Expenses</b>	<u>283,106</u>
<b>Operating Income (Loss)</b>	<u>73,568</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest income	222
Grant revenue	50,000
Rental income	5,950
Interest expense	<u>(11,906)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>44,266</u>
<b>Change in net position</b>	117,834
<b>NET POSITION, beginning of year</b>	<u>743,530</u>
<b>NET POSITION, end of year</b>	<u><u>\$ 861,364</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, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Charges for services and other operating revenues	\$ 353,759
Payments to employees for salaries and benefits	(98,419)
Payments to suppliers	(151,463)
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>103,877</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	5,950
Grant revenue	50,000
Purchases of capital assets	(67,516)
Repayment of debt	(34,219)
Interest paid on capital debt	(11,906)
<b>Net Cash Provided (Used) By Capital and Related Financing Activities</b>	<u>(57,691)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received from investments	222
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**NET INCREASE IN CASH AND CASH EQUIVALENTS**

46,408

**CASH AND CASH EQUIVALENTS, beginning**

252,242

**CASH AND CASH EQUIVALENTS, ending**

\$ 298,650

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

Operating income (loss)	\$ 73,568
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	20,350
Changes in:	
Accounts receivable	(2,915)
Prepaid expenses	11,577
Accounts payable	(118)
Accrued taxes payable	1,415
<b>Net Cash Provided (Used) By Operating Activities</b>	<u><u>\$ 103,877</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, 2015**

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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 Organization has determined that it has no reportable component units.

### **Basis of Accounting**

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

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Cash and cash equivalents**

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

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

### **Accounts Receivable**

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

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

### **Inventory**

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

### **Capital assets**

Capital assets are recorded at original cost, or fair value if donated. The Association's capitalization policy for moveable equipment includes all items with a unit cost of \$1,000 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.

### **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, 2012 through 2014, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2015, will expire in November 2019.

**Budgets**

The Association does not adopt a legal budget.

**Use of Estimates**

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

**NOTE 3 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following as of December 31, 2015:

Demand deposits - Citizens Bank.....	\$ 100,095
Savings account - Citizens Bank.....	31,431
CDs - Citizens Bank.....	115,119
CDs - Washington Federal.....	51,954
Petty cash.....	<u>51</u>
Total.....	<u>\$ 298,650</u>

**Custodial Credit Risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. State statute requires that the bank deposits in excess of FDIC insurance be 50% collateralized. As of December 31, 2015, the Association was in compliance with state statute. The carrying amount of the Association's deposits was \$298,599 and the bank balance was \$300,723 as of December 31, 2015. Of the bank balance, \$300,723 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.

## NOTE 4 – CAPITAL ASSETS

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

<b><u>Business-type activities</u></b>	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
<b>Non-Depreciable Assets:</b>				
Water rights	\$ 220,973	\$ -	\$ -	\$ 220,973
Land	115,241	-	-	115,241
Construction in progress	82,122	98,812	-	180,934
<b>Total Non-Depreciable Assets</b>	<b>418,336</b>	<b>98,812</b>	<b>-</b>	<b>517,148</b>
<b>Depreciable Assets:</b>				
Water system	411,803	-	-	411,803
Buildings	345,776	-	-	345,776
Equipment	48,537	-	-	48,537
<b>Total Depreciable Assets</b>	<b>806,116</b>	<b>-</b>	<b>-</b>	<b>806,116</b>
<b>Total Governmental Assets</b>	<b>1,224,452</b>	<b>98,812</b>	<b>-</b>	<b>1,323,264</b>
<b>Accumulated Depreciation:</b>				
Water system	(316,494)	(10,601)	-	(327,095)
Buildings	(95,656)	(8,798)	-	(104,454)
Equipment	(46,208)	(951)	-	(47,159)
<b>Total Accumulated Depreciation</b>	<b>(458,358)</b>	<b>(20,350)</b>	<b>-</b>	<b>(478,708)</b>
<b>Net Capital Assets</b>	<b>\$ 766,094</b>	<b>\$ 78,462</b>	<b>\$ -</b>	<b>\$ 844,556</b>

## NOTE 5 - LONG-TERM DEBT

During the year ended December 31, 2015, the following changes occurred in long-term debt:

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015	Due Within One Year
N/P - Bank	\$ 144,640	\$ -	\$ 144,640	\$ -	\$ -
N/P - Bank	29,356	-	1,570	27,786	1,716
N/P - NMFA	82,123	31,296	-	113,419	-
N/P - NMFA	-	151,308	-	151,308	2,701
N/P - Water rights	56,667	-	29,721	26,946	26,946
<b>Total</b>	<b>\$ 312,786</b>	<b>\$ 182,604</b>	<b>\$ 175,931</b>	<b>\$ 319,459</b>	<b>\$ 31,363</b>

### **Note Payable – Bank**

Installment note payable to a bank, payable in monthly installments of \$1,199, including interest of 6.25%, due in 2015 and secured by the office building. Loan paid off with new NMFA debt (see below).

### **Note Payable – Bank**

Installment note payable to a bank, payable in monthly installments of \$190, including interest of 2.1%, principal payments through 2029 and secured by bank deposits.

### **Note Payable – NMFA**

The Association entered into an agreement, dated July 19, 2013, with the New Mexico Finance Authority for a maximum loan amount of \$797,900 to finance the construction of a water treatment plant. Repayment starts in 2017. The debt was finalized on May 19, 2016 for \$115,596.82. The debt is payable with variable monthly payments (ranging from \$369 to \$579) 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**

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 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.

### **Note Payable – Water Rights**

Payable to an LLC to purchase water rights, payable in annual installments of \$26,948, including interest of 0%, due in 2016 and secured by water rights.

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>
2016	\$ 31,363	\$ 7,408	\$ 38,771
2017	10,563	7,995	18,558
2018	11,079	7,809	18,888
2019	11,280	7,596	18,876
2020	11,506	7,361	18,867
2021-2025	61,541	32,676	94,217
2026-2030	67,471	24,432	91,903
2031-2035	67,478	14,936	82,414
2036-2040	47,178	4,744	51,922
Total	319,459	\$ 114,957	\$ 434,416
Less Current Portion	(31,363)		
	<u>\$ 288,096</u>		

## **NOTE 6 - SUPPLEMENTAL CASH FLOW DISCLOSURES**

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

The Association refinanced bank debt and recorded restricted cash of \$9,596 with long-term debt issued by the NMFA totaling \$151,308.

The Association incurred costs and debt of \$31,296 on the water treatment plant project.

Interest paid of \$11,906 during the year ended December 31, 2015.

**NOTE 7 - CONTINGENCIES AND COMMITMENTS**

**Risk Management**

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

**Construction Commitments**

The Association has active construction projects as of December 31, 2015 as follows:

<u>Project</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
Treatment plant.....	\$ 167,644	\$ 2,178

The treatment plant project was terminated in May 2016 and the costs of assets will be expensed or depreciated in 2016, over the various lives of the related assets and the debt will be paid off in accordance with the terms of the debt.

**NOTE 8 – MAJOR SUPPLIER**

In accordance with an agreement dated July 5, 2005, the Organization purchases substantially all of its water from the City of Aztec for delivery to its members. The agreement is a five year agreement. The cost of water purchased from the City during the years ended December 31, 2015 and 2014 was \$76,710 and \$75,859, respectively.

**NOTE 9 – SUBSEQUENT EVENT**

The Association has evaluated subsequent events through October 31, 2016, which is the date the financial statements were available to be issued.

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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**

Tim Keller, New Mexico State Auditor and Board Members  
Southside Mutual Domestic Water Association  
Flora Vista, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Southside Mutual Domestic Water Association as of and for the ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated October 31, 2016.

### **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.

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. 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we considered to significant deficiencies as item 2015-001.

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2015-002 and 2015-003.

### **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  
October 31, 2016**

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended December 31, 2015**

**A. Summary of Audit Results**

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

**B. Findings - Financial Statements Audit**

**Prior Year Findings**

None

**Current Year Findings**

**2015-001 – Reconciliation of General Ledger Accounts (Significant Deficiency)**

**Condition**

Debt, restricted cash and interest general ledger accounts were not reconciled to actual on a timely basis.

**Criteria**

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

**Cause**

The Association does not have controls over the timely reconciliation of all of the general ledger accounts balances to actual amounts.

**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**

The Association will consider adopting policies and procedures for controls over reconciliation of the general ledger balances to actual amounts on a timely basis. The Association will contract with an outside accountant at the end of 2016 to assist in reconciling the general ledger accounts on a timely basis.

## **2015-002 Late Audit Report (Other)**

### Condition

The Association did not submit its audit report for the year ended December 31, 2015 by its due date of the following year.

### Criteria

The New Mexico State Auditor rules require that a State Agency audit report be submitted by May 31 of each year (SAO Rule 2.2.2.9 A(1)(d)).

### Cause

The Association did not have the 2015 information available for audit until after May 31, 2016.

### Effect

The Association is not in compliance with the New Mexico State Auditor Rules and Regulations.

### Recommendation

The Association should adopt policies and procedures to comply with the New Mexico Auditor Rules and Regulations.

### Management Response

The Association will consider adopting policies and procedures for controls over financial statement preparation and requirements to comply with the New Mexico Auditor Rules and Regulations. The Association will contract with an outside accountant at the end of 2016 to assist in reconciling the general ledger accounts on a timely basis.

## **2015-003 Legally Adopted Budget (Other)**

### Condition

The Association did not submit a legally adopted budget for the year ended December 31, 2015 in accordance with the NM State Auditor's Office requirement.

### Criteria

The New Mexico State Auditor's Office requires that Mutual Domestic Water Associations (MDWA) have a legally adopted budget in accordance with Section 6-6-2 and Section 6-6-5 through 6-6-7 NMSA 1978.

### Cause

The Association has followed the New Mexico Attorney General Opinion 06-02 which determined that MDWA 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 New Mexico Attorney General Opinion did not list budget reporting as a requirement.

### Effect

The Association is not in compliance with the New Mexico State Auditor Rules and Regulations.

### Recommendation

The Association should determine if Section 6-6-2 and Section 6-6-5 through 6-6-7 NMSA 1978 apply to MDWA.

Management Response

The Association will determine if Section 6-6-2 and Section 6-6-5 through 6-6-7 NMSA 1978 apply to MDWA. The Association will obtain legal advice in 2017.

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

**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION  
EXIT CONFERENCE  
Year Ended December 31, 2015**

**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 November 10, 2016. In attendance were:**

Southside Mutual Domestic Water Association:

Board Member .....	April Munkres
System Manager.....	Rick Mitchell
Office Manager .....	Amy Rhoades

David Berry, CPA, PC:

Auditor .....	David Berry, CPA
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## ***OTHER INFORMATION***

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**SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION**  
**SCHEDULE OF PLEDGED COLLATERAL**  
**December 31, 2015**

	<b>Citizens Bank</b>	<b>Washington Federal</b>	<b>Total</b>
Demand deposits	\$ 133,650	\$ -	\$ 133,650
Certificates of deposit	115,119	51,954	167,073
Deposits, at December 31, 2015	<u>248,769</u>	<u>51,954</u>	<u>300,723</u>
FDIC Insurance	248,769	51,954	300,723
Uninsured amount	-	-	-
Less 50 percent	-	-	-
Amount requiring pledged collateral	<u>-</u>	<u>-</u>	<u>-</u>
Pledged collateral at December 31, 2015	<u>100,000</u>	<u>-</u>	<u>100,000</u>
<b>Excess (deficiency) of pledged collateral</b>	<u><u>\$ 100,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 100,000</u></u>
<b>Pledged collateral (market value)</b>			
<b>Located at:</b>	<b>Dallas, TX</b>		
Sherman TX Ind School Bond; #824178UL9; 02/15/2030 maturity	\$ 100,000	\$ -	\$ 100,000
<b>Totals</b>	<u><u>\$ 100,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 100,000</u></u>
<b>Reconciliation to Financial Statements:</b>			
Total per banks	\$ 133,650	\$ -	\$ 300,723
Reconciling items:			
Deposits in transit	-	-	-
Outstanding checks	(2,124)	-	(2,124)
Total per banks	<u>\$ 131,526</u>	<u>\$ -</u>	298,599
Petty cash			51
Total per financial statements			<u><u>\$ 298,650</u></u>

