SOUTHSIDE MUTUAL DOMESTIC
WATER ASSOCIATION
AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2017

INTRODUCTORY SECTION

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SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
List of Principal Officials
December 31, 2017

Name	Title
Ronald Hicks	President
Lacy Terrazes	Vice President
April Munkres	Secretary / Treasurer
Carol Jameson	Director
Roy Pike	Director
Rick Mitchell	System Manager
Shirley Sells	Office Manager

FINANCIAL SECTION

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DAVID BERRY, CPA, PC

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INDEPENDENT AUDITOR'S REPORT

Wayne Johnson, New Mexico State Auditor and Board Members
Southside Mutual Domestic Water Association
Aztec, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities, which are comprised of the statement of net position as of December 31, 2017 and statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Southside Mutual Domestic Water Association basic financial statements as listed in the table of contents. We also have audited the statement of revenues, expenses – budget and actual (budgetary basis) of the Association for the year ended December 31, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southside Mutual Domestic Water Association as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the statement of revenues, expenses – budget and actual (budgetary basis) of the Association for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The schedule of pledged collateral, as required by 2.2.2 NMAC included as Other Information as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of pledged collateral is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of pledged collateral is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018 on our consideration of the entity's' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

David Berry, CPA, PC

Farmington, New Mexico
April 30, 2018

Management's Discussion and Analysis
Year Ended December 31, 2017

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, 2017.

Financial Highlights

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2017 by $931,021 (net position). This was an increase of $20,307 from December 31, 2016 net position of $910,714. Of the December 31, 2017 net position, $362,220 is unrestricted.

- The Association's financial position increased in 2017 as compared to prior year. Net position increased during the year by $20,307. Operating revenues decreased by $6,189 and operating expenses increased by $18,811. Depreciation expense of $17,873 is included in operating expenses. Nonoperating revenues (net) was ($559) and decreased net position.

- The Association's cash and cash equivalents reflect $351,319 at December 31, 2017. Of this total, $16,968 is restricted for debt service. Accounts receivable from water sales to members was $34,882 at December 31, 2017.

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

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

These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the Association's assets, liabilities, and net position as of December 31, 2017 and 2016.

Net Position, as of December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets	$ 370,169	$ 351,396
Capital Assets, Net	586,254	604,127
Non-Current Assets	237,941	237,559
Total Assets	1,194,364	1,193,082
Liabilities		
Current Liabilities	$ 17,238	$ 26,974
Non-Current Liabilities	246,105	255,394
Total Liabilities	263,343	282,368
Net Position:		
Net investment in capital Assets	$ 568,801	$ 577,482
Unrestricted	362,220	333,232
Total Net Position	$ 931,021	$ 910,714

Analysis of Net Position

The Association's assets exceeded liabilities by $931,021 at the close of the fiscal year. Net position consists of 61% Capital Assets (e.g. project works, buildings, equipment and water rights) less related debt or $255,394. 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 $362,220.

The following table summarizes the Association's revenue, expenses, and changes in net position for the year ended December 31, 2017 and 2016:

Revenue, Expenses and Changes in Net Position

	2017	2016
Operating Revenues	$ 344,411	$ 350,600
Operating Expenses	323,545	304,734
Operating income (loss)	20,866	45,866
Nonoperating Revenues (Expenses)	(559)	3,484
Change in Net Position	$ 20,307	$ 49,350

During the fiscal year, the Association's net position increased by $20,307. Nonoperating revenues (grant revenue and rental) decreased by $4,043.

Operating Revenues

The following table summarizes the Association's operating revenues for the fiscal year ended December 31, 2017 and 2016:

	2017	2016
Charges for services	$ 336,679	$ 350,089
Other operating revenues	7,732	511
Total Operating Revenues	$ 344,411	$ 350,600

Operating Expenses

The following table summarizes the Association's operating expenses for the fiscal year ended December 31, 2017 and 2016:

	2017	2016
Personnel services	$ 92,965	$ 99,719
Maintenance, operations and contractual services	101,666	76,982
Water purchased for resale	71,612	67,638
Office expenses	39,429	40,939
Depreciation	17,873	19,456
Total Operating Expenses	$ 323,545	$ 304,734

Non-Operating Revenues and Expenses

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended December 31, 2017 and 2016:

	2017	2016
Interest income	$ 582	$ 645
Rental income	10,200	9,850
Interest expense	(11,341)	(7,011)
Total Nonoperating Revenues	$ (559)	$ 3,484

Capital Assets and Long-Term Debt

The Association added $0 in capital assets during the fiscal year ended December 31, 2017.

Depreciation expenses for the year ended December 31, 2017 and 2016, amounted to $17,873 and $19,456, respectively.

The Association made principal payments in the amount of $8,810 and $55,257 during the years ended December 31, 2017 and 2016, respectively.

Factors Impacting Future Periods

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

The treatment plant project with a cost of the project of $180,934 is recorded as construction in progress.

Comparison of Budget to Actual

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

Operating revenues were under budget by $12,725 due to charges for services and other charges.

Total operating expenses were under/(over) budget by $34,606. Personnel services were under/(over) budget by $4,235; maintenance, operations and contractual services were under/(over) budget by $18,934; water purchases were under/(over) budget by $20,416; and office expenses were under/(over) budget by ($8,979).

Total Nonoperating revenues were over/(under) budget by ($559).

BASIC FINANCIAL STATEMENTS

SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF NET POSITION

December 31, 2017

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	334,351
Accounts receivable, net		34,882
Prepaid expenses		936
Total Current Assets		370,169
NONCURRENT ASSETS:		
Restricted cash		16,968
Water rights		220,973
Capital assets not being depreciated		296,175
Capital assets, net of accumulated depreciation		290,079
Total Noncurrent Assets		824,195
Total Assets	$	1,194,364
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$	403
Accrued taxes payable		7,546
Current portion of noncurrent liabilities		9,289
Total Current Liabilities		17,238
NONCURRENT LIABILITIES:		
Notes payable (noncurrent)		246,105
Total Liabilities		263,343
NET POSITION:		
Net investment in capital assets		568,801
Unrestricted		362,220
Total Net Position		931,021
Total Liabilities and Net Position	$	1,194,364

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, 2017

OPERATING REVENUES:		
Charges for services	$	336,679
Other operating revenues		7,732
Total Operating Revenues		344,411
OPERATING EXPENSES:		
Personnel services		92,965
Maintenance, operations and contractual services		101,666
Water purchased for resale		71,612
Office expenses		39,429
Depreciation		17,873
Total Operating Expenses		323,545
Operating Income (Loss)		20,866
NONOPERATING REVENUES (EXPENSES):		
Interest income		582
Grant revenue		-
Rental income		10,200
Interest expense		(11,341)
Total Nonoperating Revenues (Expenses)		(559)
Change in net position		20,307
NET POSITION, beginning of year		910,714
NET POSITION, end of year	$	931,021

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:		
Charges for services and other operating revenues	$	341,981
Payments to employees for salaries and benefits		(90,139)
Payments to suppliers		(226,684)
Net Cash Provided (Used) By Operating Activities		25,158
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants		-
Net Cash Provided (Used) By Noncapital Financing Activities		-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Rental income		10,200
Purchases of capital assets		-
Repayment of debt		(8,810)
Interest paid on capital debt		(11,341)
Net Cash Provided (Used) By Capital and Related Financing Activities		(9,951)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received from investments		582
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,789
CASH AND CASH EQUIVALENTS, beginning		335,530
CASH AND CASH EQUIVALENTS, ending	$	351,319
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$	20,866
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		17,873
Changes in:		
Accounts receivable		(2,430)
Prepaid expenses		(936)
Accounts payable		(13,041)
Accrued taxes payable		2,826
Net Cash Provided (Used) By Operating Activities	$	25,158

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

NOTE 1 – CREATION OF ENTITY AND BASIS OF PRESENTATION

Reporting Entity

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

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

An Attorney General's (AG) opinion (90-30, dated December 27, 1990) concludes that entities created under the Sanitary Projects Act (SPA) are subject to the New Mexico Audit Act. Additionally, there is another AG opinion (68-38) that states Mutual Domestic Associations (MDAs) under the SPA are created for "one purpose only, and that is to establish and maintain a water system". Also, it concluded MDAs are not "other municipal corporations "and are, thus, subject to ad valorem taxes. Finally, the Attorney General Opinion 06-02 has determined that MDAs created pursuant to the SPA 1) are public bodies/political subdivisions; 2) whose revenues are "public money"; and 3) they have statutory responsibilities to abide by the Open Meetings Act, the Inspection of Public Records Act, the Procurement Code, and the Per Diem and Mileage Act.

Due to the fact that MDAs have been determined to be governmental nonprofit organizations, in evaluating how to define a governmental entity, for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity's fiscal dependency on others. The Association has determined that it has no reportable component units.

Basis of Accounting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

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

Accounts Receivable

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

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

Capital assets

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

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

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

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

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

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

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

> *Operating revenue* include activities that have the characteristics of an exchange transaction, such as a) charges for services and fees, net of allowance for uncollectible allowance.
>
> *Non-operating revenues* include activities that have the characteristics of non-exchange transactions, such as a) capital grants; and b) investment income. Grant revenue is recognized when the eligibility requirements are met.

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

> *Operating expenses* include activities that have the characteristics of an exchange transaction, such as a) employee salaries, benefits, and related expense; b) maintenance, operations and contractual services; c) material and supplies; d) office expenses; and e) depreciation expenses related to Association capital assets.
>
> *Non-operating expenses* include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses.

Tax Status
The Association operates as not-for-profit association and has received exempt status under Code Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Management of the Association believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(12) of the internal Revenue Code and believes there are no activities subject to unrelated business income tax. The Association files federal Form 990 with the Internal Revenue Service and copies of Form 990 with states in which the Association is registered, as required. The statute of limitations for examination of the Association's returns expires three years from the due date of the return or the date filed, whichever is later. The Association's returns for the years ended December 31, 2014 through 2016, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2017, will expire in May 2020.

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

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

NOTE 3 – LEGAL COMPLIANCE - BUDGETS

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

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

NOTE 4 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of December 31, 2017:

		12/31/2017
Demand deposits	$	165,618
Certificates of deposit		168,526
Total bank deposits		334,144
NMFA cash - restricted		16,968
Petty cash		207
Total cash and cash equivalents	$	351,319
Cash and cash equivalents	$	334,351
Restricted cash		16,968
Total cash and cash equivalents	$	351,319

Custodial Credit Risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. State statute requires that the bank deposits in excess of FDIC insurance be 50% collateralized. The pledged collateral cannot be an out of state security. As of December 31, 2017 the Association was in compliance with state statute for the amount of collateral pledged but not for the type of collateral pledged. The carrying amount of the Association's deposits was $334,351 and the bank balance was $342,804 as of December 31, 2017. Of the bank balance, $303,176 was covered by federal depository insurance, $39,628 was collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name, and $0 was uncollateralized. The custodial credit risk is $0.

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

NOTE 5 – CAPITAL ASSETS

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

Business-type activities	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017
Non-Depreciable Assets:				
Water rights	$ 220,973	$ -	$ -	$ 220,973
Land	115,241	-	-	115,241
Construction in progress	180,934	-	-	180,934
Total Non-Depreciable Assets	517,148	-	-	517,148
Depreciable Assets:				
Water system	411,803	-	-	411,803
Buildings	345,776	-	-	345,776
Equipment	48,537	-	-	48,537
Total Depreciable Assets	806,116	-	-	806,116
Total Governmental Assets	1,323,264	-	-	1,323,264
Accumulated Depreciation:				
Water system	(337,282)	(8,761)	-	(346,043)
Buildings	(113,040)	(8,586)	-	(121,626)
Equipment	(47,842)	(526)	-	(48,368)
Total Accumulated Depreciation	(498,164)	(17,873)	-	(516,037)
Net Capital Assets	$ 825,100	$ (17,873)	$ -	$ 807,227

NOTE 6 - LONG-TERM DEBT

During the year ended December 31, 2017, the following changes occurred:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017	Due Within One Year
N/P - NMFA #1	$ 115,597	$ -	$ (4,433)	$ 111,164	$ 4,867
N/P - NMFA #2	148,607	-	(4,377)	144,230	4,422
Total	$ 264,204	$ -	$ (8,810)	$ 255,394	$ 9,289

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. Repayment starts in 2017. The debt was finalized on May 19, 2016 for $115,597. The debt is payable with monthly payments of $591 that are held in trust to pay principal payments annually (May 1st) and interest payments (2.00%) semi-annually (May 1st 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 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 0.50% 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:

Year Ended December 31,	Principal	Interest	Total
2018	$ 9,289	$ 7,315	$ 16,604
2019	9,452	7,140	16,592
2020	9,640	6,944	16,584
2021	9,844	6,731	16,575
2022	10,067	6,499	16,566
2023-2027	54,183	28,548	82,731
2028-2032	61,895	20,646	82,541
2033-2037	64,539	10,761	75,300
2038-2040	26,485	1,736	28,221
Total	255,394	$ 96,320	$ 351,714
Less Current Portion	(9,289)		
	$ 246,105		

NOTE 7 - PENSION PLAN

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

NOTE 8 - SUPPLEMENTAL CASH FLOW DISCLOSURES

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

Interest paid of $11,341 during the year ended December 31, 2017.
Income taxes paid during the year ended December 31, 2017 was $0.

NOTE 9 - CONTINGENCIES AND COMMITMENTS

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

Construction Commitments
The treatment plant project with a cost of the project of $180,934 is recorded as construction in progress.

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, 2017 was $71,612.

NOTE 11 – SUBSEQUENT EVENT

The Association has evaluated events and transactions occurring subsequent to December 31, 2017, as of April 30, 2018, which is the date the financial statements were available to be issued. Subsequent events occurring after April 30, 2018 have not been evaluated by management. No material events have occurred since December 31, 2017 that requires recognition or disclosure in the financial statements.

NOTE 12 – RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. ASU 2016-14 is effective for the Association for fiscal years beginning after December 15, 2017, and permits early adoption. While the Association expects ASU 2016-14 to add significant disclosures to the financial statements, it is evaluating other effects that the new standard will have on the financial statements presentation.

SUPPLEMENTARY INFORMATION

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

Year Ended December 31, 2017

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:				
Charges for services	$ 348,126	$ 348,126	$ 336,679	$ (11,447)
Other	9,010	9,010	7,732	(1,278)
Total Operating Revenues	357,136	357,136	344,411	(12,725)
OPERATING EXPENSES:				
Personnel services	97,200	97,200	92,965	4,235
Maintenance, operations and contractual services	120,600	120,600	101,666	18,934
Water purchased for resale	92,028	92,028	71,612	20,416
Office expenses	30,450	30,450	39,429	(8,979)
Total Operating Expenses	340,278	340,278	305,672	34,606
Operating Income (Loss)	16,858	16,858	38,739	21,881
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	-	582	582
Rental income	-	-	10,200	10,200
Interest expense	-	-	(11,341)	(11,341)
Total Nonoperating Revenues (Expenses)	-	-	(559)	(559)
Change in Net Position (Budgetary Basis)	$ 16,858	$ 16,858	38,180	$ 21,322
RECONCILIATION TO CHANGE IN NET POSITION ON BASIC FINANCIAL STATEMENTS:				
Depreciation			(17,873)	
Change in net position per basic financial statements			$ 20,307	

See accompanying notes to the basic financial statements.

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OTHER INFORMATION

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SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
SCHEDULE OF PLEDGED COLLATERAL
December 31, 2017

	Citizens Bank	Washington Federal	Total
Demand deposits	$ 174,278	$ -	$ 174,278
Certificates of deposit	115,350	53,176	168,526
Deposits, at December 31, 2017	289,628	53,176	342,804
FDIC Insurance	250,000	53,176	303,176
Uninsured amount	39,628	-	39,628
Less 50 percent	19,814	-	19,814
Amount requiring pledged collateral	19,814	-	19,814
Pledged collateral at December 31, 2017	100,000	-	100,000
Excess (deficiency) of pledged collateral	$ 80,186	$ -	$ 80,186
Pledged collateral (market value)			
Located at:	**Dallas, TX**		
Sherman TX Ind School Bond; #824178UL9; 02/15/2030 maturity	$ 100,000	$ -	$ 100,000
Totals	$ 100,000	$ -	$ 100,000
Reconciliation to Financial Statements:			
Total per banks	$ 289,628	$ 53,176	$ 342,804
Reconciling items:			
Deposits in transit	-	-	-
Outstanding checks	(8,660)	-	(8,660)
Total per banks	$ 280,968	$ 53,176	334,144
Petty cash			207
Total per financial statements			$ 334,351

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COMPLIANCE SECTION

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DAVID BERRY, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT / SMALL BUSINESS CONSULTANT

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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*

Wayne Johnson, New Mexico State Auditor and Board Members
Southside Mutual Domestic Water Association
Aztec, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Southside Mutual Domestic Water Association as of and for the ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and the budgetary comparison, presented as supplementary information, and have issued our report thereon dated April 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses (item 2015-001 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2016-002.

Association's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David Berry, CPA, PC

Farmington, New Mexico
April 30, 2018

A. Summary of Audit Results

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

B. Findings - Financial Statements Audit

Prior Year Findings

2015-001 – Not resolved and revised and repeated in current year
2015-002 – Resolved and not repeated in current year
2016-001 – Resolved and not repeated in current year
2016-002 – Not resolved and repeated in current year

Current Year Findings

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

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

Management Response

Corrective action plan for finding:
The new office manager has been trained for reconciling the NMFA statements to the general ledger.

Timeline for completion of corrective action plan:
The 2018 debt and restricted cash general ledger accounts have been reconciled to the NMFA statements.

Employee position(s) responsible for meeting the timeline:
The system manager will be responsible for reviewing and approving the reconciliation of debt and restricted cash accounts to the general ledger accounts.

2016-002 Pledged Collateral (Other)

Condition
The security pledged by Citizens Bank as collateral for deposits at the bank was not valid as defined in New Mexico State Statue 6-10-16, B. The pledged security is a Sherman Texas Independent School District bond, and has a maturity date of 02/15/2030, Cusip #824178UL9, market value of $100,000. No progress has occurred on this condition in 2017.

Criteria
Only securities backed by the full faith and credit of the United States Government will be accepted as collateral. The Organization may make an exception and accept as collateral securities from a governmental entity within the State of New Mexico as described by State Statute 6-10-16-A.

Cause
The Bank and Association were not aware of the restriction on collateral pledged.

Effect
The Association was not in compliance with New Mexico State Statutes.

Recommendation
The Organization should review the list of collateral pledged on a timely basis to comply with Association policy and with applicable New Mexico state statutes.

Management Response
Corrective action plan for finding:
The Association will establish policies and procedures to comply with and document compliance with Section 6-6-2 NMSA 1978.

Timeline for completion of corrective action plan:
The Organization moved monies to a new bank to reduce bank deposits below the $250,000 FDIC insurance amount. Also, the System Manager will contact the bank before June 30, 2018 to have the collateral changed to comply with Section 6-6-2 NMSA 1978.

Employee position(s) responsible for meeting the timeline:
The Board of Directors will be responsible for approving policies to comply with Section 6-6-2 NMSA 1978. The System Manager will be responsible for setting up procedures, and for contacting the bank to change the collateral pledged, to comply with Section 6-6-2 NMSA 1978.

C. Findings – Single audit not required

SOUTHSIDE MUTUAL DOMESTIC WATER ASSOCIATION
EXIT CONFERENCE
Year Ended December 31, 2017

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 May 10, 2018. In attendance were:

Southside Mutual Domestic Water Association:

Board Member (President)	Ronald Hicks
System Manager....................................	Rick Mitchell
Office Manager	Shirley Sells

David Berry, CPA, PC:

Auditor	David Berry, CPA

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