

**FLORA VISTA MUTUAL DOMESTIC
WATER ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2016**

INTRODUCTORY SECTION

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**FLORA VISTA MUTUAL DOMESTIC
WATER ASSOCIATION
List of Principal Officials
December 31, 2016**

<u>Name</u>	<u>Title</u>
Daniel Tso	President
Kevin Smith	Vice President
Pat Roach.....	Secretary / Treasurer
Dale Houston.....	Director
Blain Williams	Director
Rick Mitchell	System Manager

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Tim Keller, New Mexico State Auditor and Board Members
Flora Vista Mutual Domestic Water Association, Inc.
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, 2016 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 Flora Vista Mutual Domestic Water Association, Inc.

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 Flora Vista Mutual Domestic Water Association, Inc. as of December 31, 2016, 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 May 30, 2017 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
May 30, 2017**

Management's Discussion and Analysis Year Ended December 31, 2016

For financial reporting purposes, Flora Vista Mutual Domestic Water Association, Inc. (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, 2016.

Financial Highlights

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2016 by \$1,614,260 (net position). This was an decrease of \$141,830 from December 31, 2015 net position of \$1,756,090. Of the December 31, 2016 net position, \$242,766 is unrestricted.
- The Association's financial position decreased in 2016 as compared to prior year. Net position decreased during the year by \$141,830 due to depreciation expense of \$133,639. Depreciation expense was the major reason for the decrease in net position.
- The Association's cash and cash equivalents reflect \$205,493 at December 31, 2016. Accounts receivable from water sales to members was \$54,885 at December 31, 2016.

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 260,378	\$ 383,700
Capital Assets, Net	1,465,990	1,497,100
Non-Current Assets	<u>381,179</u>	<u>381,179</u>
Total Assets	2,107,547	2,261,979
Liabilities		
Current Liabilities	\$ 84,196	\$ 72,070
Non-Current Liabilities	<u>409,091</u>	<u>433,819</u>
Total Liabilities	493,287	505,889
Net Position:		
Net investment in		
capital assets	\$ 1,371,494	\$ 1,386,111
Unrestricted	<u>242,766</u>	<u>369,979</u>
Total Net Position	\$ 1,614,260	\$ 1,756,090

Analysis of Net Position

The Association's assets exceeded liabilities by \$1,614,260 at the close of the fiscal year. Net position consists of 85% Capital Assets (e.g. project works, buildings, equipment and water rights) less related debt or \$475,675. 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 \$242,766.

The following table summarizes the Association's revenue, expenses, and changes in net position for the year ended December 31, 2016 and 2015:

Revenue, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 746,834	\$ 733,482
Operating Expenses	<u>860,925</u>	<u>760,771</u>
Operating income (loss)	(114,091)	(27,289)
Nonoperating Revenues (Expenses)	<u>(27,739)</u>	<u>(39,968)</u>
Change in Net Position	\$ (141,830)	\$ (67,257)

During the fiscal year, the Association's net position decreased by \$141,830.

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Charges for services	\$ 746,834	\$ 733,482
Other operating revenues	<u>-</u>	<u>-</u>
Total Operating Revenues	\$ 746,834	\$ 733,482

Operating Expenses

The following table summarizes the Association's operating expenses for the fiscal year ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Personnel services	\$ 353,975	\$ 347,791
Maintenance, operations and contractual services	131,481	91,872
Water costs purchased for resale	196,845	126,691
Office expenses	44,985	43,790
Depreciation	<u>133,639</u>	<u>150,627</u>
Total Operating Expenses	\$ 860,925	\$ 760,771

Non-Operating Revenues and Expenses

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 233	\$ 476
Grant revenue	-	-
Rental income	5,100	5,100
Interest expense	<u>(33,072)</u>	<u>(45,544)</u>
Total Nonoperating Revenues	\$ (27,739)	\$ (39,968)

Capital Assets and Long-Term Debt

The Association added \$102,528 of land (\$30,901) and system improvements (\$71,627) to the water system during the fiscal year ended December 31, 2015.

Depreciation expenses for the year ended December 31, 2016 and 2015, amounted to \$161,345 and \$150,627, respectively.

The Association issued debt in 2016 of \$71,627 to pay for the system improvements. No debt was issued in 2015.

The Association made principal payments in the amount of \$88,120 and \$53,511 during the years ended December 31, 2016 and 2015, respectively.

Factors Impacting Future Periods

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

Comparison of Budget to Actual

The Association does not legally adopt a budget.

BASIC FINANCIAL STATEMENTS

**FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
STATEMENT OF NET POSITION**

December 31, 2016

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 205,493
Accounts receivable, net	54,885
Other current assets	-
Total Current Assets	<u>260,378</u>
NONCURRENT ASSETS:	
Water rights	381,179
Capital assets not being depreciated	135,815
Capital assets, net of accumulated depreciation	1,330,175
Total Noncurrent Assets	<u>1,847,169</u>
Total Assets	<u>\$ 2,107,547</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ -
Accrued taxes payable	11,430
Accrued compensated absences	6,182
Current portion of noncurrent liabilities	66,584
Total Current Liabilities	<u>84,196</u>
NONCURRENT LIABILITIES:	
Notes payable (noncurrent)	<u>409,091</u>
Total Liabilities	<u>493,287</u>
NET POSITION:	
Net investment in capital assets	1,371,494
Unrestricted	242,766
Total Net Position	<u>1,614,260</u>
Total Liabilities and Net Position	<u>\$ 2,107,547</u>

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

**FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION**

Year Ended December 31, 2016

OPERATING REVENUES:

Charges for services	\$ 746,834
Other operating revenues	<u>-</u>
Total Operating Revenues	<u>746,834</u>

OPERATING EXPENSES:

Personnel services	353,975
Maintenance, operations and contractual services	131,481
Water costs and purchased for resale	196,845
Office expenses	44,985
Depreciation	<u>133,639</u>
Total Operating Expenses	<u>860,925</u>

Operating Income (Loss) (114,091)

NONOPERATING REVENUES (EXPENSES):

Interest income	233
Grant revenue	-
Rental income	5,100
Interest expense	<u>(33,072)</u>

Total Nonoperating Revenues (Expenses) (27,739)

Change in net position (141,830)

NET POSITION, beginning of year 1,756,090

NET POSITION, end of year \$ 1,614,260

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

**FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS**

Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services and other operating revenues	\$ 749,758
Payments to employees for salaries and benefits	(350,084)
Payments to suppliers	(373,311)
Net Cash Provided (Used) By Operating Activities	<u>26,363</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating grants	-
Net Cash Provided (Used) By Noncapital Financing Activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Rental income	5,100
Grant revenue	-
Purchases of capital assets	(30,902)
Debt issuance	-
Repayment of debt	(88,120)
Interest paid on capital debt	(33,072)
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(146,994)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received from investments	233
NET INCREASE IN CASH AND CASH EQUIVALENTS	(120,398)
CASH AND CASH EQUIVALENTS, beginning	<u>325,891</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 205,493</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (114,091)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	133,639
Changes in:	
Accounts receivable	2,924
Accounts payable	-
Accrued taxes payable	4,682
Accrued compensated absences	(791)
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 26,363</u></u>

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

FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – CREATION OF ENTITY AND BASIS OF PRESENTATION

Reporting Entity

Flora Vista Mutual Domestic Water Association, Inc. (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 August 15, 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 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 \$500 or more, and an estimated useful life of greater than one year. The Association includes software purchased with a piece of equipment in the cost of capitalization. This total cost is depreciated over the useful life of the equipment. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line and accelerated methods over the estimated useful lives of the assets, generally five to 10 years for equipment, 20 years for water system assets, and 40 years for buildings.

Compensated Absences

The Association accrues a liability for vacation time in excess of 40 hours. The Association does not pay for unused sick leave upon termination; therefore, amounts are not accrued for unused sick leave.

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.

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, 2013 through 2015, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2016, will expire in June 2020.

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, 2016:

	Vectra <u>Bank</u>	Citizens <u>Bank</u>	Morgan <u>Stanley</u>	<u>Total</u>
Check accounts	\$ 55,293	\$ 1,976	\$ -	\$ 57,269
Savings accounts	125,167	-	-	125,167
Cash at brokerage	-	-	<u>22,839</u>	<u>22,839</u>
Total	<u>\$ 180,460</u>	<u>\$ 1,976</u>	<u>\$ 22,839</u>	205,275
Petty cash				<u>218</u>
				<u>\$ 205,493</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, 2016, the Association was in compliance with state statute. The carrying amount of the Association's deposits was \$205,275 and the bank balance was \$217,991 as of December 31, 2016. Of the bank balance, \$217,991 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:

<u>Business-type activities</u>	<u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/16</u>
Non-Depreciable Assets:				
Water rights	\$ 381,179	\$ -	\$ -	\$ 381,179
Land	104,914	30,902	-	135,816
Construction in progress	-	-	-	-
Total Non-Depreciable Assets	<u>486,093</u>	<u>30,902</u>	<u>-</u>	<u>516,995</u>
Depreciable Assets:				
Water system	2,996,357	71,627	-	3,067,984
Buildings	241,314	-	-	241,314
Equipment	308,018	-	-	308,018
Total Depreciable Assets	<u>3,545,689</u>	<u>71,627</u>	<u>-</u>	<u>3,617,316</u>
Total Governmental Assets	<u>4,031,782</u>	<u>102,529</u>	<u>-</u>	<u>4,134,311</u>
Accumulated Depreciation:				
Water system	(1,698,397)	(110,519)	-	(1,808,916)
Buildings	(178,887)	(7,031)	-	(185,918)
Equipment	(276,219)	(16,089)	-	(292,308)
Total Accumulated Depreciation	<u>(2,153,503)</u>	<u>(133,639)</u>	<u>-</u>	<u>(2,287,142)</u>
Net Capital Assets	<u>\$ 1,878,279</u>	<u>\$ (31,110)</u>	<u>\$ -</u>	<u>\$ 1,847,169</u>

NOTE 5 - LONG-TERM DEBT

During the year ended December 31, 2016, the following changes occurred in long-term debt:

	<u>Balance</u> <u>12/31/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Due Within</u> <u>One Year</u>
N/P - Bank	\$ 46,348	\$ -	\$ 8,660	\$ 37,688	\$ 9,325
N/P - Vendor	445,820	-	58,061	387,759	54,218
Debt - NMFA	-	71,627	21,399	50,228	3,041
Total	<u>\$ 492,168</u>	<u>\$ 71,627</u>	<u>\$ 88,120</u>	<u>\$ 475,675</u>	<u>\$ 66,584</u>

Note Payable – Bank

Installment note payable to a bank, payable in monthly installments of \$958, including interest of 6.5%, due in 2020 and secured by equipment.

Note Payable – Vendor

Installment note payable to a vendor, payable in monthly installments of \$7,280, including interest of 8.915%, due in 2022 and secured by water tank.

Debt – New Mexico Finance Authority (Joint Powers Agreement)

Debt payable to North Star Domestic Water under a Joint Powers Agreement (JPA) for 50% of debt incurred to pay for capital projects (water line installation). The total amount of the debt was \$143,255. The Association share of the debt was \$71,627. The debt is payable to North Star Domestic Water and then they make the debt service payments to the New Mexico Finance Authority. The Association's annual payments are estimated to be \$4,296, including interest of 2.5%, due in 2030 and secured by system improvements.

Principal maturities of long-term notes payable are \$66,584, \$72,320, \$78,568, \$81,844, \$80,702 and \$95,657 for the years ending December 31, 2017, 2018, 2019, 2020, 2021 and thereafter, respectively. The principal maturities for 2022 through 2026 are \$79,494 and for 2027 through 2030 are \$16,163.

NOTE 6 - PENSION PLAN

The Association has not elected to be included in the New Mexico Public Employees Retirement Fund (PERA). The Association participates in a defined contribution pension plan covering substantially all of its employees. The Association's contributes \$100 to \$150 per month per qualified employee. The total amount for pension expense was \$6,600 for the year ended December 31, 2016. No amounts were attributed to employee forfeitures.

NOTE 7 - SUPPLEMENTAL CASH FLOW DISCLOSURES

The following is a summary of additional cash flow disclosures required:
Interest paid of \$33,072 during the year ended December 31, 2016.
Noncash capital asset additions and debt issuance were \$71,627.

NOTE 8 - 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.

Water Rights

In May 2008, the Association entered into a lease agreement for water rights from a national energy company for 40 years for annual payments of \$7,552 plus CPI increases.

The Association has an aggressive policy of acquiring water rights. The purchase of water rights is deemed necessary to meet state requirements that the Association have rights to as many or more acre-feet of water as it produces from its wells.

Management currently does not know exactly how many acre-feet of water rights the Association owns. However, the State of New Mexico has been approving the water production rate of the Association for numerous years. Management is currently working to determine the exact amount of water rights owned by the Association.

NOTE 9 – JOINT POWERS AGREEMENT

The Association entered into a Joint Powers Agreement (JPA) with North Star Mutual Domestic Water in 2008. North Star is responsible for any operations, grant agreements, debt agreements, revenues, expenses and audit responsibilities. The JPA is to enable the creation of a regional water system. The term of the JPA is 20 years. Currently, there is only a grant and debt agreement with the New Mexico Finance Authority. The Association accounts for its share (50%) of the debt (\$71,627) to construct a water line to connect the water systems. The water line and the debt of \$71,627 are recorded on the Association's general ledger and included in the financial statements.

NOTE 10 – SUBSEQUENT EVENT

The Association has evaluated events and transactions occurring subsequent to December 31, 2016 as of May 30, 2017, which is the date the financial statements were available to be issued. Subsequent events occurring after May 30, 2017 have not been evaluated by management. No material events have occurred since December 31, 2016 that requires recognition or disclosure in the financial statements.

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OTHER INFORMATION

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FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
SCHEDULE OF PLEDGED COLLATERAL
December 31, 2016

	Vectra Bank	Citizens Bank	Morgan Stanley	Total
Demand deposits	\$ 192,817	\$ 2,335	\$ 22,839	\$ 217,991
Certificates of deposit	-	-	-	-
Deposits, at December 31, 2016	<u>192,817</u>	<u>2,335</u>	<u>22,839</u>	<u>217,991</u>
FDIC Insurance	<u>192,817</u>	<u>2,335</u>	<u>22,839</u>	<u>217,991</u>
Uninsured amount	-	-	-	-
Less 50 percent	-	-	-	-
Amount requiring pledged collateral	-	-	-	-
Pledged collateral at December 31, 2016	-	-	-	-
Excess (deficiency) of pledged collateral	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Pledged collateral (market value) located at:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Totals	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Reconciliation to Financial Statements:				
Total per banks	\$ 192,817	\$ 2,335	\$ 22,839	\$ 217,991
Reconciling items:				
Deposits in transit	533	-	-	533
Outstanding checks	(12,890)	(359)	-	(13,249)
Total per financial institutions	<u><u>\$ 180,460</u></u>	<u><u>\$ 1,976</u></u>	<u><u>\$ 22,839</u></u>	<u><u>205,275</u></u>
Petty cash				<u>218</u>
Total per financial statements				<u><u>\$ 205,493</u></u>

Flora Vista Mutual Domestic
Water Association, Inc.
SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
For the Year Ended 12/31/2016

Prepared by Agency Staff Name: Rick Mitchell Title: Manager Date 12/31/16

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded</i>	<i>In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
None								

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
Flora Vista Mutual Domestic Water Association, Inc.
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 Flora Vista Mutual Domestic Water Association, Inc. as of and for the ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated May 30, 2017.

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 2014-001.

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 2015-001.

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
May 30, 2017**

FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2016

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. 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

2014-001 – not resolved and repeated in current year.

2014-002 – resolved and not repeated in current year.

2015-001 – not resolved and repeated in current year.

Current Year Findings

2014-001 – Reconciliation of General Ledger Accounts (Significant Deficiency)

Condition

Payroll tax liability and payroll expense accounts were not reconciled to actual on a timely basis. No progress was made during the current year.

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.

Response

Corrective action plan for finding:

The Association will contract with an outside accountant to assist in reconciling accounts.

Timeline for completion of corrective action plan:

Management will contract with the outside accountant once the audit has been approved (June 2017) and the accounts should be reconciled for the end of July 2017.

Employee position(s) responsible for meeting the timeline:

Rick Mitchell – System Manager.

2015-001 Submission of Reports to the Department of Finance and Administration – Local Government Division (DFA-LGD) - (Other)

Condition

The Association did not submit financial and budgetary reports to the Department of Finance and Administration – Local Government Division (DFA-LGD). No progress was made in the current year.

Criteria

Section 6-6-2 NMSA 1978 requires local public bodies (defined in Section 6-6-1 NMSA 1978) to submit financial reports and budgetary reports to DFA-LGD.

Cause

The Association's management does not prepare a budget and the Association's board does not approve a budget.

Effect

The Association is not in compliance Section 6-6-2 NMSA 1978.

Recommendation

The Association should adopt policies and procedures to comply with and document compliance with Section 6-6-2 NMSA 1978.

Response

Corrective action plan for finding:

The Association will contact the Department of Finance and Administration – Local Government Division (DFA-LGD) and 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 System Manager will contact DFA-LGD before September 30, 2017 to determine compliance requirements.

Employee position(s) responsible for meeting the timeline:

The System Manager will be responsible for contacting DFA-LGD and documenting procedures. The Board of Directors will be responsible for approving policies to comply with Section 6-6-2 NMSA 1978.

C. Findings – Single audit not required

**FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
EXIT CONFERENCE
Year Ended December 31, 2016**

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 30, 2017. In attendance were:

Flora Vista Mutual Domestic Water Association, Inc.:

Board Member	Pat Roach
System Manager.....	Rick Mitchell
Office Assistant.....	Pamela Carlisle

David Berry, CPA, PC:

Auditor	David Berry, CPA
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