

**FLORA VISTA MUTUAL DOMESTIC
WATER ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2017**

INTRODUCTORY SECTION

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**FLORA VISTA MUTUAL DOMESTIC
WATER ASSOCIATION
List of Principal Officials
December 31, 2017**

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

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Wayne Johnson, 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, 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, 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, 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.

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 May 29, 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
May 29, 2018**

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

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, 2017.

Financial Highlights

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2017 by \$1,584,336 (net position). This was an decrease of \$29,924 from December 31, 2016 net position of \$1,614,260. Of the December 31, 2017 net position, \$379,209 is unrestricted.
- The Association's financial position decreased in 2017 as compared to prior year. Net position decreased during the year by \$29,924 due to depreciation expense of \$114,824. Depreciation expense was the major reason for the decrease in net position.
- The Association's cash and cash equivalents reflect \$324,736 at December 31, 2017. Accounts receivable from water sales to members was \$73,108 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

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 397,844	\$ 260,378
Capital Assets, Net	1,351,166	1,465,990
Non-Current Assets	<u>381,179</u>	<u>381,179</u>
Total Assets	2,130,189	2,107,547
Liabilities		
Current Liabilities	\$ 32,739	\$ 84,196
Non-Current Liabilities	<u>513,114</u>	<u>409,091</u>
Total Liabilities	545,853	493,287
Net Position:		
Net investment in		
capital assets	\$ 1,205,127	\$ 1,371,494
Unrestricted	<u>379,209</u>	<u>242,766</u>
Total Net Position	\$ 1,584,336	\$ 1,614,260

Analysis of Net Position

The Association's assets exceeded liabilities by \$1,584,336 at the close of the fiscal year. Net position consists of 76% Capital Assets (e.g. project works, buildings, equipment and water rights) less related debt or \$527,218. 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 \$379,209.

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

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 771,145	\$ 746,834
Operating Expenses	<u>775,734</u>	<u>860,925</u>
Operating income (loss)	(4,589)	(114,091)
Nonoperating Revenues (Expenses)	<u>(25,335)</u>	<u>(27,739)</u>
Change in Net Position	\$ (29,924)	\$ (141,830)

During the fiscal year, the Association's net position decreased by \$29,924.

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Charges for services	\$ 771,145	\$ 746,834
Other operating revenues	<u>-</u>	<u>-</u>
Total Operating Revenues	\$ 771,145	\$ 746,834

Operating Expenses

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

	<u>2017</u>	<u>2016</u>
Personnel services	\$ 345,323	\$ 353,975
Maintenance, operations and contractual services	145,040	131,481
Water costs purchased for resale	126,543	196,845
Office expenses	44,004	44,985
Depreciation	<u>114,824</u>	<u>133,639</u>
Total Operating Expenses	\$ 775,734	\$ 860,925

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:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 222	\$ 233
Grant revenue	-	-
Rental income	5,100	5,100
Interest expense	<u>(30,657)</u>	<u>(33,072)</u>
Total Nonoperating Revenues	\$ (25,335)	\$ (27,739)

Capital Assets and Long-Term Debt

The Association added \$0 and \$102,528 of improvements to the water system during the fiscal year ended December 31, 2017 and 2016, respectively.

Depreciation expenses for the year ended December 31, 2017 and 2016, amounted to \$114,824 and \$133,639, respectively.

In 2017, the Association paid off two debts with the issuance of new debt totaling \$500,000. The Association made principal payments in the amount of \$436,777 and \$88,120 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.

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, 2017

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 324,736
Accounts receivable, net	73,108
Other current assets	-
Total Current Assets	<u>397,844</u>
NONCURRENT ASSETS:	
Water rights	381,179
Capital assets not being depreciated	135,816
Capital assets, net of accumulated depreciation	<u>1,215,350</u>
Total Noncurrent Assets	<u>1,732,345</u>
Total Assets	<u><u>\$ 2,130,189</u></u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ -
Accrued taxes payable	11,324
Accrued compensated absences	7,311
Current portion of noncurrent liabilities	<u>14,104</u>
Total Current Liabilities	32,739
NONCURRENT LIABILITIES:	
Notes payable (noncurrent)	<u>513,114</u>
Total Liabilities	<u>545,853</u>
NET POSITION:	
Net investment in capital assets	1,205,127
Unrestricted	<u>379,209</u>
Total Net Position	<u>1,584,336</u>
Total Liabilities and Net Position	<u><u>\$ 2,130,189</u></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, 2017

OPERATING REVENUES:	
Charges for services	\$ 771,145
Other operating revenues	<u>-</u>
Total Operating Revenues	<u>771,145</u>
OPERATING EXPENSES:	
Personnel services	345,323
Maintenance, operations and contractual services	145,040
Water costs and purchased for resale	126,543
Office expenses	44,004
Depreciation	<u>114,824</u>
Total Operating Expenses	<u>775,734</u>
Operating Income (Loss)	<u>(4,589)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	222
Grant revenue	-
Rental income	5,100
Interest expense	<u>(30,657)</u>
Total Nonoperating Revenues (Expenses)	<u>(25,335)</u>
Change in net position	(29,924)
NET POSITION, beginning of year	<u>1,614,260</u>
NET POSITION, end of year	<u><u>\$ 1,584,336</u></u>

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services and other operating revenues	\$ 752,922
Payments to employees for salaries and benefits	(346,346)
Payments to suppliers	<u>(313,138)</u>
Net Cash Provided (Used) By Operating Activities	<u>93,438</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating grants	<u>-</u>
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	-
Debt issuance less loan costs	487,917
Repayment of debt	(436,777)
Interest paid on capital debt	<u>(30,657)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>25,583</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received from investments	<u>222</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,243
CASH AND CASH EQUIVALENTS, beginning	<u>205,493</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 324,736</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (4,589)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	114,824
Amortization of debt issuance costs	403
Changes in:	
Accounts receivable	(18,223)
Accounts payable	-
Accrued taxes payable	(106)
Accrued compensated absences	<u>1,129</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 93,438</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, 2017

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, 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 June 2021.

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, 2017:

	Vectra <u>Bank</u>	Citizens <u>Bank</u>	Morgan <u>Stanley</u>	<u>Total</u>
Checking accounts	\$ 90,194	\$ 2,701	\$ -	\$ 92,895
Savings accounts	204,955	-	-	204,955
Cash at brokerage	-	-	26,668	26,668
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 295,149</u>	<u>\$ 2,701</u>	<u>\$ 26,668</u>	324,518
Petty cash				218
				<u>\$ 324,736</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, 2017, the Association was in compliance with state statute. The carrying amount of the Association's deposits was \$324,518 and the bank balance was \$338,417 as of December 31, 2017. Of the bank balance, \$279,919 was covered by federal depository insurance, \$97,695 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>January 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2017</u>
Non-Depreciable Assets:				
Water rights	\$ 381,179	\$ -	\$ -	\$ 381,179
Land	135,816	-	-	135,816
Construction in progress	-	-	-	-
Total Non-Depreciable Assets	<u>516,995</u>	<u>-</u>	<u>-</u>	<u>516,995</u>
Depreciable Assets:				
Water system	3,067,984	-	-	3,067,984
Buildings	241,314	-	-	241,314
Equipment	308,018	-	-	308,018
Total Depreciable Assets	<u>3,617,316</u>	<u>-</u>	<u>-</u>	<u>3,617,316</u>
Total Governmental Assets	<u>4,134,311</u>	<u>-</u>	<u>-</u>	<u>4,134,311</u>
Accumulated Depreciation:				
Water system	(1,808,916)	(100,705)	-	(1,909,621)
Buildings	(185,918)	(7,031)	-	(192,949)
Equipment	(292,308)	(7,088)	-	(299,396)
Total Accumulated Depreciation	<u>(2,287,142)</u>	<u>(114,824)</u>	<u>-</u>	<u>(2,401,966)</u>
Net Capital Assets	<u>\$ 1,847,169</u>	<u>\$ (114,824)</u>	<u>\$ -</u>	<u>\$ 1,732,345</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2017:

Note Payable – Bank 1

Installment note payable to a bank, payable in monthly installments of \$958, including interest of 6.5%, due in 2020 and secured by equipment. The note was paid off with the issuance of a note payable (see bank 2 below) in 2017.

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. The note was paid off with the issuance of a note payable (see bank 2 below) in 2017.

Debt – NMFA (Joint Powers Agreement)

Debt payable to the New Mexico Finance Authority (NMFA) incurred for the construction of a water line. The debt is shared 50/50 under a joint powers agreement with North Star Domestic Water. The debt payments are made to North Star Domestic Water and then that organization pays the NMFA. The Association's annual debt service payments are estimated to be \$4,296, including interest of 2.5%, due in 2030 and secured by system improvements.

Note Payable – Bank 2

Installment note payable to a bank, payable in monthly installments of \$2944.55, including interest of 5%, due in 2042 and secured by water system assets.

During the year ended December 31, 2017, the following changes occurred in long-term debt:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017	Due Within One Year
N/P - Bank 1	\$ 37,688	\$ -	\$ 37,688	\$ -	\$ -
N/P - Vendor	387,759	-	387,759	-	-
Debt - NMFA	50,228	-	3,264	46,964	3,117
N/P - Bank 2	-	500,000	8,065	491,935	10,987
Total	<u>\$ 475,675</u>	<u>\$ 500,000</u>	<u>\$ 436,776</u>	538,899	<u>\$ 14,104</u>
Less loan costs of \$12,084 (net of accumulated amortization of \$403)				<u>(11,681)</u>	
				<u>\$ 527,218</u>	

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

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 14,104	\$ 25,526	\$ 39,630
2019	14,744	24,886	39,630
2020	15,414	24,216	39,630
2021	16,118	23,512	39,630
2022	16,854	22,776	39,630
2023-2027	96,630	101,520	198,150
2028-2032	112,273	72,989	185,262
2033-2037	128,625	48,045	176,670
2038-2042	<u>124,137</u>	<u>26,034</u>	<u>150,171</u>
Total	538,899	<u>\$ 369,504</u>	<u>\$ 908,403</u>
Less Current Portion	<u>(14,104)</u>		
	<u>\$ 524,795</u>		

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 \$6,700 for the year ended December 31, 2017. 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 \$30,254 during the year ended December 31, 2017.

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) for a water line to connect the water systems.

NOTE 10 – SUBSEQUENT EVENT

The Association has evaluated events and transactions occurring subsequent to December 31, 2017, as of May 29, 2018, which is the date the financial statements were available to be issued. Subsequent events occurring after May 29, 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 11 – 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 assets 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.

OTHER INFORMATION

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FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
SCHEDULE OF PLEDGED COLLATERAL
December 31, 2017

	<u>Vectra Bank</u>	<u>Citizens Bank</u>	<u>Morgan Stanley</u>	<u>Total</u>
Demand deposits	\$ 308,498	\$ 3,251	\$ 26,668	\$ 338,417
Certificates of deposit	-	-	-	-
Deposits, at December 31, 2017	<u>308,498</u>	<u>3,251</u>	<u>26,668</u>	<u>338,417</u>
FDIC Insurance	250,000	3,251	26,668	279,919
Uninsured amount	58,498	-	-	58,498
Less 50 percent	29,249	-	-	29,249
Amount requiring pledged collateral	<u>29,249</u>	<u>-</u>	<u>-</u>	<u>29,249</u>
Pledged collateral at December 31, 2017	<u>97,695</u>	<u>-</u>	<u>-</u>	<u>97,695</u>
Excess (deficiency) of pledged collateral	<u>\$ 68,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,446</u>
Pledged collateral (market value) located at:	Deposit Trust Corporation (DTC) Jersey City, NJ			
SBA Pool #504471; 83164E6G7	\$ 17,472	\$ -	\$ -	\$ 17,472
SBA Pool #504533; 83164FBA1	25,888	-	-	25,888
SBA Pool #504620; 83164FDZ4	17,416	-	-	17,416
SBA Pool #505891; 83164GRL8	36,919	-	-	36,919
Totals	<u>\$ 97,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,695</u>
Reconciliation to Financial Statements:				
Total per banks	\$ 308,498	\$ 3,251	\$ 26,668	\$ 338,417
Reconciling items:				
Deposits in transit	-	-	-	-
Outstanding checks	(13,349)	(550)	-	(13,899)
Total per financial statements	<u>\$ 295,149</u>	<u>\$ 2,701</u>	<u>\$ 26,668</u>	<u>\$ 324,518</u>

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Wayne Johnson, 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, 2017, 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 29, 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.

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 29, 2018**

FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

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.

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 debt accounts were not reconciled to actual on a timely basis. Some progress has been made in the current year and most of the accounts have been reconciled but not all of the general ledger accounts.

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 (September 2018) 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). The 2018 budget was submitted and approved.

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 contacted 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 submitted the 2018 budget to DFA-LGD.

Employee position(s) responsible for meeting the timeline:

The System Manager is responsible for submitting the approved budget to DFA-LGD and documenting procedures. The Board of Directors is 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, 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 30, 2018. 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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