

**FLORA VISTA MUTUAL DOMESTIC  
WATER ASSOCIATION, INC.  
AUDITED FINANCIAL STATEMENTS  
Year Ended December 31, 2018**

## **INTRODUCTORY SECTION**

# TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTORY SECTION:</b>	
Table of Contents .....	i
List of Principal Officials .....	ii
<b>BASIC FINANCIAL STATEMENTS:</b>	
Independent Auditor's Report .....	v
Management's Discussion and Analysis.....	vii
Statement of Net Position .....	2
Statement of Revenues, Expenses and Changes in Fund Net Position .....	3
Statement of Cash Flows .....	4
Notes to the Financial Statements.....	5
<b>SUPPLEMENTARY INFORMATION:</b>	
Statement of Revenues and Expenses - Budget and Actual (Budgetary Basis) .....	15
<b>OTHER INFORMATION:</b>	
Schedule of Pledged Collateral .....	19
<b>COMPLIANCE SECTION:</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> .....	23
Schedule of Findings and Responses .....	25
<b>EXIT CONFERENCE</b> .....	26

**FLORA VISTA MUTUAL DOMESTIC  
WATER ASSOCIATION  
List of Principal Officials  
December 31, 2018**

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

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Brian Colon, 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 financial statements of the business-type activities, which are comprised of the statement of net position as of December 31, 2018 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 Flora Vista Mutual Domestic Water Association, Inc. 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, 2018, 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 Flora Vista Mutual Domestic Water Association, Inc. as of December 31, 2018, 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, 2018, 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 12, 2019 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 12, 2019**



## **Management's Discussion and Analysis Year Ended December 31, 2018**

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, 2018.

### **Financial Highlights**

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2018 by \$1,611,971 (net position). This was an increase of \$27,635 from December 31, 2017 net position of \$1,584,336. Of the December 31, 2018 net position, \$495,555 is unrestricted.
- The Association's financial position increased in 2018 as compared to prior year. Net position increased during the year by \$27,635 due to a decrease in operating expenses. Maintenance, operations and contractual services decreased \$39,477 due to less system repairs during the current year.
- The Association's cash and cash equivalents reflect \$429,976 at December 31, 2018. Accounts receivable from water sales to members was \$84,352 at December 31, 2018.

## 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, 2018 and 2017.

### Net Position, as of December 31, 2017 and 2018

	<u>2017</u>	<u>2018</u>
<b>Assets</b>		
Current Assets	\$ 397,844	\$ 514,328
Capital Assets, Net	1,351,166	1,248,738
Non-Current Assets	<u>381,179</u>	<u>381,179</u>
Total Assets	2,130,189	2,144,245
<b>Liabilities</b>		
Current Liabilities	\$ 32,739	\$ 33,517
Non-Current Liabilities	<u>513,114</u>	<u>498,757</u>
Total Liabilities	545,853	532,274
<b>Net Position:</b>		
Net investment in		
capital assets	\$ 1,205,127	\$ 1,116,416
Unrestricted	<u>379,209</u>	<u>495,555</u>
Total Net Position	\$ 1,584,336	\$ 1,611,971

### Analysis of Net Position

The Association's assets exceeded liabilities by \$1,611,971 at the close of the fiscal year. Net position consists of 69% Capital Assets (e.g. project works, buildings, equipment and water rights) less related debt or \$513,501. 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 \$495,555.

The following table summarizes the Association's revenue, expenses, and changes in net position for the year ended December 31, 2018 and 2017:

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

	<u>2017</u>	<u>2018</u>
Operating Revenues	\$ 771,145	\$ 765,452
Operating Expenses	<u>775,734</u>	<u>716,331</u>
Operating income (loss)	(4,589)	49,121
Nonoperating Revenues (Expenses)	<u>(25,335)</u>	<u>(21,486)</u>
Change in Net Position	\$ (29,924)	\$ 27,635

During the fiscal year, the Association's net position increased by \$27,635.

**Operating Revenues**

The following table summarizes the Association's operating revenues for the fiscal year ended December 31, 2018 and 2017:

	<u>2017</u>	<u>2018</u>
Charges for services	\$ 771,145	\$ 765,452
Other operating revenues	<u>-</u>	<u>-</u>
Total Operating Revenues	\$ 771,145	\$ 765,452

**Operating Expenses**

The following table summarizes the Association's operating expenses for the fiscal year ended December 31, 2018 and 2017:

	<u>2017</u>	<u>2018</u>
Personnel services	\$ 345,323	\$ 363,517
Maintenance, operations and contractual services	145,040	105,563
Water costs purchased for resale	126,543	99,515
Office expenses	44,004	45,308
Depreciation	<u>114,824</u>	<u>102,428</u>
Total Operating Expenses	\$ 775,734	\$ 716,331

**Non-Operating Revenues and Expenses**

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended December 31, 2018 and 2017:

	<u>2017</u>	<u>2018</u>
Interest income	\$ 222	\$ 490
Grant revenue	-	-
Rental income	5,100	5,100
Interest expense	<u>(30,657)</u>	<u>(27,076)</u>
Total Nonoperating Revenues	\$ (25,335)	\$ (21,486)

## **Capital Assets and Long-Term Debt**

The Association added \$0 of improvements to the water system during the fiscal years ended December 31, 2018 and 2017.

Depreciation expenses for the year ended December 31, 2018 and 2017, amounted to \$102,428 and \$114,824, respectively.

The Association made principal payments in the amount of \$14,201 and \$436,777 during the years ended December 31, 2018 and 2017, respectively.

In 2017, the Association paid off two debts with the issuance of new debt totaling \$500,000.

## **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**

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 over budget by \$44,902 due to charges for services and other charges.

Total operating expenses were under/(over) budget by \$67,008. Personnel services were under/(over) budget by \$1,861; maintenance, operations and contractual services were under/(over) budget by \$55,470; water purchases were under/(over) budget by \$2,585; and office expenses were under/(over) budget by \$7,092.

Total Nonoperating revenues were over/(under) budget by (\$21,486).

## **BASIC FINANCIAL STATEMENTS**

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

**December 31, 2018**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$	429,976
Accounts receivable, net		84,352
Other current assets		-
<b>Total Current Assets</b>		<u>514,328</u>

**NONCURRENT ASSETS:**

Water rights		381,179
Capital assets not being depreciated		135,816
Capital assets, net of accumulated depreciation		<u>1,112,922</u>
<b>Total Noncurrent Assets</b>		<u>1,629,917</u>
<b>Total Assets</b>	<b>\$</b>	<u><u>2,144,245</u></u>

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES:**

Accounts payable	\$	-
Accrued taxes payable		10,445
Accrued compensated absences		8,328
Current portion of noncurrent liabilities		<u>14,744</u>
<b>Total Current Liabilities</b>		33,517

**NONCURRENT LIABILITIES:**

Notes payable (noncurrent)		<u>498,757</u>
<b>Total Liabilities</b>		<u>532,274</u>

**NET POSITION:**

Net investment in capital assets		1,116,416
Unrestricted		<u>495,555</u>
<b>Total Net Position</b>		<u>1,611,971</u>
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<u><u>2,144,245</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, 2018**

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**OPERATING REVENUES:**

Charges for services	\$	765,452
Other operating revenues		<u>-</u>
<b>Total Operating Revenues</b>		<u>765,452</u>

**OPERATING EXPENSES:**

Personnel services		363,517
Maintenance, operations and contractual services		105,563
Water costs and purchased for resale		99,515
Office expenses		45,308
Depreciation		<u>102,428</u>
<b>Total Operating Expenses</b>		<u>716,331</u>

**Operating Income (Loss)** 49,121

**NONOPERATING REVENUES (EXPENSES):**

Interest income		490
Grant revenue		-
Rental income		5,100
Interest expense		<u>(27,076)</u>

**Total Nonoperating Revenues (Expenses)** (21,486)

**Change in net position** 27,635

**NET POSITION, beginning of year** 1,584,336

**NET POSITION, end of year** \$ 1,611,971

**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, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Charges for services and other operating revenues	\$ 754,208
Payments to employees for salaries and benefits	(363,655)
Payments to suppliers	<u>(250,110)</u>
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>140,443</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Operating grants	<u>-</u>
<b>Net Cash Provided (Used) By Noncapital Financing Activities</b>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Rental income	5,100
Grant revenue	-
Purchases of capital assets	-
Debt issuance less loan costs	-
Repayment of debt	(14,201)
Interest paid on capital debt	<u>(26,592)</u>
<b>Net Cash Provided (Used) By Capital and Related Financing Activities</b>	<u>(35,693)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received from investments	<u>490</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	105,240
<b>CASH AND CASH EQUIVALENTS, beginning</b>	<u>324,736</u>
<b>CASH AND CASH EQUIVALENTS, ending</b>	<u><u>\$ 429,976</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>	
Operating income (loss)	\$ 49,121
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	102,428
Changes in:	
Accounts receivable	(11,244)
Accounts payable	-
Accrued taxes payable	(879)
Accrued compensated absences	<u>1,017</u>
<b>Net Cash Provided (Used) By Operating Activities</b>	<u><u>\$ 140,443</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, 2018**

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**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, 2015 through 2017, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2018, will expire in May 2022.

### **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 total expenditures, and serves as a management control device. Once adopted, the Board is authorized to amend the budget at the account classification.

### **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 accounts within any fund. However, any revisions that alter the total expenditures of any fund must be 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, 2018:

	Vectra Bank	Citizens Bank	Morgan Stanley	Total
Checking accounts	\$ 64,952	\$ 2,374	\$ -	\$ 67,326
Savings accounts	330,407	-	-	330,407
Cash at brokerage	-	-	32,025	32,025
<b>Total</b>	<b>\$ 395,359</b>	<b>\$ 2,374</b>	<b>\$ 32,025</b>	<b>429,758</b>
Petty cash				218
				<u>\$ 429,976</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, 2018, the Association was in compliance with state statute. The carrying amount of the Association's deposits was \$429,758 and the bank balance was \$449,913 as of December 31, 2018. Of the bank balance, \$285,070 was covered by federal depository insurance, \$164,843 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 5 – CAPITAL ASSETS

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

<u>Business-type activities</u>	<u>January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2018</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	(1,909,621)	(90,519)	-	(2,000,140)
Buildings	(192,949)	(7,030)	-	(199,979)
Equipment	(299,396)	(4,879)	-	(304,275)
Total Accumulated Depreciation	<u>(2,401,966)</u>	<u>(102,428)</u>	<u>-</u>	<u>(2,504,394)</u>
Net Capital Assets	<u>\$ 1,732,345</u>	<u>\$ (102,428)</u>	<u>\$ -</u>	<u>\$ 1,629,917</u>

## NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2018:

### 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 assets.

### Note Payable – Bank

Installment note payable to a bank, payable in monthly installments of \$2,944.55, including interest of 5%, due in 2042 and secured by water system assets.

During the year ended December 31, 2018, the following changes occurred in long-term debt:

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018	Due Within One Year
Debt - NMFA	\$ 46,964	\$ -	\$ 3,559	\$ 43,405	\$ 3,195
N/P - Bank 2	491,935	-	10,642	481,293	11,549
Total	\$ 538,899	\$ -	\$ 14,201	524,698	\$ 14,744
Less loan costs of \$12,084 (net of accumulated amortization of \$886)				(11,197)	
				\$ 513,501	

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>
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	17,627	22,003	39,630
2024-2028	101,089	97,061	198,150
2029-2033	112,969	72,293	185,262
2034-2038	135,206	41,464	176,670
2039-2042	94,677	55,494	150,171
Total	524,698	\$ 383,705	\$ 908,403
Less Current Portion	(14,744)		
	\$ 509,954		

## **NOTE 7 - 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 \$7,200 for the year ended December 31, 2018. No amounts were attributed to employee forfeitures.

## **NOTE 8 - SUPPLEMENTAL CASH FLOW DISCLOSURES**

The following is a summary of additional cash flow disclosures required:  
Interest paid of \$26,593 during the year ended December 31, 2018.

## **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.

### **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 10 – 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 11 – MAJOR SUPPLIER**

In accordance with an agreement dated July 5, 2005, Flora Vista Mutual Domestic purchases water from the City of Aztec during the peak demand months. The Association also purchases water when the Association has to take its Well Field offline for repairs. The agreement is currently an annual agreement. The cost of water purchased from the City during the year ended December 31, 2018 was \$8,149.

## **NOTE 12 – SUBSEQUENT EVENT**

The Association has evaluated events and transactions occurring subsequent to December 31, 2018, as of April 12, 2019, which is the date the financial statements were available to be issued. Subsequent events occurring after April 12, 2019 have not been evaluated by management. No material events have occurred since December 31, 2018 that requires recognition or disclosure in the financial statements.

## **NOTE 13 – 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.

## **NOTE 14 – TAX ABATEMENT (GASB 77) REQUIRED DISCLOSURE**

The Association cannot levy taxes and therefore would not have any tax abatements. GASB 77 disclosures do not apply to the Association.



***SUPPLEMENTARY INFORMATION***

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**FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.  
STATEMENT OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL (BUDGETARY BASIS)**

**Year Ended December 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 720,550	\$ 720,550	\$ 765,452	\$ 44,902
Other	-	-	-	-
<b>Total Operating Revenues</b>	<u>720,550</u>	<u>720,550</u>	<u>765,452</u>	<u>44,902</u>
<b>OPERATING EXPENSES:</b>				
Personnel services	365,378	365,378	363,517	1,861
Maintenance, operations and contractual services	161,033	161,033	105,563	55,470
Water purchased for resale	102,100	102,100	99,515	2,585
Office expenses	52,400	52,400	45,308	7,092
<b>Total Operating Expenses</b>	<u>680,911</u>	<u>680,911</u>	<u>613,903</u>	<u>67,008</u>
<b>Operating Income (Loss)</b>	<u>39,639</u>	<u>39,639</u>	<u>151,549</u>	<u>111,910</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	-	-	490	490
Rental income	-	-	5,100	5,100
Interest expense	-	-	(27,076)	(27,076)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>-</u>	<u>-</u>	<u>(21,486)</u>	<u>(21,486)</u>
<b>Change in Net Position (Budgetary Basis)</b>	<u>\$ 39,639</u>	<u>\$ 39,639</u>	<u>130,063</u>	<u>\$ 90,424</u>
<b>RECONCILIATION TO CHANGE IN NET POSITION ON BASIC FINANCIAL STATEMENTS:</b>				
Depreciation			<u>(102,428)</u>	
<b>Change in net position per basic financial statements</b>			<u>\$ 27,635</u>	

**See accompanying notes to the basic 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, 2018**

	<u>Vectra</u> <u>Bank</u>	<u>Citizens</u> <u>Bank</u>	<u>Morgan</u> <u>Stanley</u>	<u>Total</u>
Demand deposits	\$ 414,843	\$ 3,045	\$ 32,025	\$ 449,913
Certificates of deposit	-	-	-	-
Deposits, at December 31, 2018	<u>414,843</u>	<u>3,045</u>	<u>32,025</u>	<u>449,913</u>
FDIC Insurance	250,000	3,045	32,025	285,070
Uninsured amount	<u>164,843</u>	-	-	<u>164,843</u>
Less 50 percent	82,422	-	-	82,422
Amount requiring pledged collateral	<u>82,422</u>	-	-	<u>82,422</u>
Pledged collateral at December 31, 2018	<u>244,709</u>	-	-	<u>244,709</u>
<b>Excess (deficiency) of pledged collateral</b>	<u>\$ 162,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,288</u>
<b>Pledged collateral (market value) located at:</b>	Deposit Trust Corporation (DTC) Jersey City, NJ			
SBA Pool #504471; 83164E6G7	\$ 15,624	\$ -	\$ -	\$ 15,624
SBA Pool #504533; 83164FBA1	23,275	-	-	23,275
SBA Pool #504620; 83164FDZ4	15,688	-	-	15,688
SBA Pool #504620; 83164FVC5	71,258	-	-	71,258
SBA Pool #504620; 83164FVQ4	84,516	-	-	84,516
SBA Pool #505891; 83164GRL8	<u>34,348</u>	-	-	<u>34,348</u>
<b>Totals</b>	<u>\$ 244,709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,709</u>
<b>Reconciliation to Financial Statements:</b>				
Total per banks	\$ 414,843	\$ 3,045	\$ 32,025	\$ 449,913
Reconciling items:				
Deposits in transit	-	-	-	-
Outstanding checks	(19,484)	(671)	-	(20,155)
Total per financial statements	<u>\$ 395,359</u>	<u>\$ 2,374</u>	<u>\$ 32,025</u>	<u>429,758</u>
Petty cash				<u>218</u>
Total per financial statements				<u>\$ 429,976</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**

Brian Colon, 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, 2018, 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 12, 2019.

### **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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 12, 2019**

**FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended December 31, 2018**

**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. No instances of noncompliance material to the financial statements of the Association were disclosed during the audit.
4. A single audit was not required.

**B. Findings - Financial Statements Audit**

**Prior Year Findings**

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

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

**Current Year Findings**

None

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

**FLORA VISTA MUTUAL DOMESTIC WATER ASSOCIATION, INC.**  
**EXIT CONFERENCE**  
**Year Ended December 31, 2018**

**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 April 12, 2019. 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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