

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION

Report of Independent Accountant on the
Application of Agreed-Upon Procedures

June 30, 2018

LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION

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LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION

List of Principal Officials

June 30, 2018

Board of Directors

Odie Chapman	Board President
Jerry Ellis	Secretary/Treasurer
Teddy Lopez	Director

**Report of Independent Accountant
on the Application of Agreed-Upon Procedures**

Mr. Brian S. Colón, Esq. New Mexico State Auditor, and
The Board of Directors
Lybrook Mutual Domestic Water Consumers' Association
Cuba, New Mexico

We have performed the procedures enumerated below, which were agreed to by Lybrook Mutual Domestic Water Consumers' Association (Association) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its compliance with Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended June 30, 2018. The Association's management is responsible for its accounting records, financial reporting, and compliance with the State Auditor rules as described above.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

In accordance with Tier 4 of the Audit Act – Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC, the procedures and associated results and findings are as follows:

1. Verify the Local Public Body's Revenue Calculation for Tiered System Reporting

We used the tiered system reporting worksheet provided by the New Mexico State Auditor's Office to recalculate the tiered system reporting calculation prepared by the Association.

Results from Procedure 1

The Association had operating revenues of \$53,258 and no state capital outlay expenditures, which requires Tier 4 agreed-upon procedures.

2. Cash

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.

Mr. Brian S. Colón, Esq. New Mexico State Auditor, and
The Board of Directors
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Cuba, New Mexico

- b) Test at least 30% of the bank reconciliations for accuracy. Also trace ending balances to the general ledger, supporting documentation, and the financial reports submitted to DFA-Local Government Division.
- c) Determine whether the local public body's financial institutions have provided it with 50% pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results from Procedures 2(a) – 2(c): See finding 2018-001 for details.

1. For the purposes of performing these procedures “timely” means completion of the bank reconciliations within one month after the last day of the reporting month. Bank reconciliations were prepared on a timely basis.
2. Twelve of twenty-four reconciliations were tested. Ten of the reconciliations, all of the reconciliations from February to June 2018, had reconciled balances that did not tie to the bank balance, did not reflect all activity for the month, had outstanding items that actually had cleared the bank, and had reconciled balances that did not agree to the trial balance. At June 30, 2018 the reconciled balances were \$3,229 greater than the balances per the trial balance. The total cash balance reported to DFA-LGD was \$3,748, which was \$2,386 greater than the amount per the trial balance, and \$1,362 less than the reconciled balances.
3. The Association has no uninsured public funds.

3. Capital Assets

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

Results from Procedure 3: See finding 2018-002 for details.

The Association has not performed a yearly inventory.

4. Revenue

Identify the nature and amount of revenue from all sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

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Cuba, New Mexico

Select a sample of revenue equal to at least 30% of the total dollar amount and test the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on; cash basis, modified accrual basis, or accrual basis.

Results from Procedures 4(a) – 4(c)

The Association has recorded revenue correctly. However, one of ten deposits tested was recorded in the accounting system with a date a month after it was deposited in the bank account. Based on our testwork believe that this is an isolated instance. Therefore, a finding has not been prepared for this error.

5. Expenditures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following attributes:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check as appropriate.
- b) Determine that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results from Procedures 5 (a) – 5(c): See findings 2018-003 and 2018-004 for details.

1. Two payments made to a utility vendor did not agree to supporting documents.
2. Eleven payroll disbursements were tested, all of which contained mileage reimbursements. All eleven mileage reimbursements were reimbursed at \$0.52 per mile instead of \$0.535 as required by the Per Diem and Mileage Act.

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6. Journal Entries

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has policies and procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results from Procedures 6(a) – 6(b)

No non-routine journal entries, adjustments, and reclassifications were noted during our testwork. The Association keeps support for all journal entries made into the accounting system.

7. Budget

Obtain the original fiscal year budget and all budget adjustments made throughout the fiscal year and perform the following test work:

- a) Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine whether the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.
- c) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Results from Procedures 7(a) – 7(c): See finding 2018-007 for details.

1. The Association did have a budget approved by DFA-LGD for the year ending June 30, 2018. The Association did not present a budget to the local public body. The Association did not submit quarterly reports for DFA-LGD for the first three quarters of the fiscal year.
2. The Association did prepare and submit a June 30, 2018 year-end report to DFA-LGS. However, the amounts in the report do not agree with the Association's financial statements.

Mr. Brian S. Colón, Esq. New Mexico State Auditor, and
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Lybrook Mutual Domestic Water Consumers' Association
Cuba, New Mexico

3. The Association expenditures were in excess of the budget presented in the June 30, 2018 year-end report.

8. Other

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include all required content detailed in Section 2.2.2.10(L) NMAC.

Results from Procedure 8: See finding 2018-005 and 2018-006 for details.

The Association did not contract with an independent public accountant by the date required by the New Mexico State Audit Rule. In addition, the Association did not submit this agreed-upon procedures report to the New Mexico Office of the State Auditor by the required due date.

During our procedures we found that two utility payments tested had amounts recorded in the accounting system that did not agree with a printout of payments received by the utility company. We informed the client of the details of the two transactions. We have asked the client to investigate the transactions in order to determine what caused the differences.

* * * * *

We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion on the Association's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Association, the New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and is not intended to be, and should not be, used by anyone other than those specified parties.

Porch & Associates, LLC

Albuquerque, New Mexico
June 28, 2019

LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
GENERAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget-
				Positive
				(Negative)
Revenues				
Water Sales	\$ 44,560	44,560	44,098	(462)
Membership and meter sales	3,289	3,289	3,289	-
Late fees and penalties	105	105	205	100
Other	8	8	8	-
Adjustment for deferred income	-	-	5,657	5,657
Total revenues	47,962	47,962	53,257	5,295
Expenditures				
Salaries	26,090	26,090	28,216	(2,126)
Employee benefits and expenses	883	883	765	118
Electricity	6,290	6,290	7,071	(781)
Other utilities - gas, water, sewer, telephone	3,156	3,156	3,457	(301)
System parts and supplies	2,551	2,551	29	2,522
System repairs and maintenance	2,341	2,341	6,167	(3,826)
Office and administrative expenses	1,710	1,710	2,490	(780)
Insurance	2,218	2,218	2,625	(407)
Dues, fees, permits and licenses	1,180	1,180	1,178	2
Taxes - gross receipts tax, water conservation fee	641	641	641	-
Training	1,139	1,139	1,139	-
Miscellaneous	489	489	1,150	(661)
Debt service	2,000	2,000	2,000	-
Adjustment for deferred expenses	-	-	(1,837)	1,837
Total expenditures	50,688	50,688	55,091	(4,403)
Deficiency of revenues over expenditures	(2,726)	(2,726)	(1,834)	892
Net change in fund balance	(2,726)	(2,726)	(1,834)	892
Prior year cash appropriated	2,726	2,726	1,834	
	\$ -	-	-	
Non-GAAP budgetary basis revenues			\$ 53,257	
Change in:				
Accounts receivable			(602)	
GAAP revenues			\$ 52,655	
Non-GAAP budgetary basis expenditures			\$ 55,091	
Change in:				
Accounts payable			1,138	
GAAP expenditures			\$ 56,229	

4th Quarter DFA Report

MDWCA Name:
Mailing Address:
Email Address:
Phone number:

Lybrook Mutual Domestic Water Consumer Association
 P.O. Box 1468, Aztec NM 87410
lybrookwater2017@gmail.com
 5054199094

Calendar Year
From July 2017 to June 2018

	APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct -Dec	Year to Date(YTD) Totals	YTD (over)/under BUDGET	% of Budget
Beginning balances:								
Cash	4,306							
Savings	2,167							
CDs								
Investments								
Beginning Balance TOTAL	\$ 6,473							
REVENUES								
Water Sales (Water Use Fees)		8,737	13,845	13,995	7,984	44,560	(44,560)	-
Connection/Reconnection Charges						0	0	-
Membership and Meter Sales (Utility Service Fees)		0	0	0	3,289	3,289	(3,289)	-
Late Fees and Penalties (Other Fines and Forfeits)		0	0	105	0	105	(105)	-
Gross Receipts Tax (Other State shared taxes)						0	0	-
Other Operating Revenue (miscellaneous - other)		0	8	0	0	8	(8)	-
TOTAL	\$ -	8,737	13,853	14,100	11,272	47,962	(47,962)	-
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.		6,331	7,147	8,223	4,388	26,090	(26,090)	-
Employee Benefits and Expenses		387	176	201	118	883	(883)	-
Electricity		1,174	2,431	649	2,036	6,290	(6,290)	-
Other Utilities - Gas, Water, Sewer, Telephone		854	831	870	602	3,156	(3,156)	-
System Parts and Supplies		(700)	0	409	2,842	2,551	(2,551)	-
System Repairs and Maintenance		774	951	616	0	2,341	(2,341)	-
Vehicle Expenses						0	0	-
Office and Administrative Expenses		1,047	324	303	37	1,710	(1,710)	-
Professional Services - Accounting, Engineering, Legal						0	0	-
Insurance		539	1,079	382	218	2,218	(2,218)	-
Dues, Fees, Permits and Licenses		2	0	1,178	0	1,180	(1,180)	-
Taxes - Gross Receipts Tax, Water Conservation Fee		0	447	194	0	641	(641)	-
Training		200	939	0	0	1,139	(1,139)	-
Miscellaneous		240	213	0	36	489	(489)	-
Loans								
Annual debt service - Loan 1		0	0	2,000	0	2,000	(2,000)	-
Annual debt service - Loan 2						0	0	-
TOTAL	\$ -	10,848	14,539	15,023	10,277	50,687	(50,687)	-
Ending Balance	6,473					3,748		
LESS: Operating Reserve	6,473					3,748		
Emergency Reserve								
Capital Improvement Reserve								
Debt Reserve								
Ending Available Cash Balance	\$ (0)					\$ (0)		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

 President/Chairperson

 Date

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2018**

Status of Prior Year Findings

None – agreed-upon procedures were not performed in the prior year.

LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018

2018-001 Bank Reconciliations – Material Weakness

Condition: During our testwork, we noted that the Association has two cash accounts. Neither of the reconciliation had reconciled balances that matched the balance per the general ledger. In addition, both reconciliations had checks and deposits outstanding greater than 30 days. It was determined that several reconciling items had cleared the bank.

Criteria: Good accounting practices require properly reconciled cash accounts. In addition, all reconciliations should be reviewed by someone other than the person performing the reconciliation function.

Effect: The Association does not know how much cash they actually have.

Cause: The Association does not adequately review the reconciliations and their balances relative to the general ledger or the bank statements.

Recommendations: The Association should implement procedures that require all reconciliations to be reviewed by someone other than the person performing the reconciliations function. This review should include comparing the reconciled balances to the general ledger and reviewing the reconciliations for old outstanding items.

Management's Response:

Corrective Action(s): The association is currently working on developing/updating policies and procedures including reconciliation procedures. The new procedure will include the revision of reconciliations by other than the person performing the reconciliation function on a monthly basis. In addition to this, the association is currently working on moving to a new accounting system that will sync with the bank and facilitate the reconciliations. These actions are part of the continuing effort of the current board of directors for bringing the association into compliance with state and federal regulations.

Responsible person(s): Board President
Board Treasurer
Bookkeeper
Office and operation assistant as needed
Consultant with StillWaters Consulting
Consultant with RCAC

Timeline of corrective action: On going, completion anticipated within six months.

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

2018-002 Yearly Capital Asset Inventory – Other Compliance

Condition: The Association has not performed a yearly inventory of assets greater than \$5,000.

Criteria: A yearly inventory of assets greater than \$5,000 is required by Section 12-6-10 NMSA 1978.

Effect: Assets could be stolen or lost and the theft would not be discovered.

Cause: The Association has an electronic version of their capital asset inventory. The Associations policy is that the capital asset inventory will be updated as needed.

Recommendations: The Association should implement procedures that require a yearly inventory be performed, documented, and approved.

Management's Response:

Corrective Action(s): The association will update its policy for conducting asset inventories to reflect Section 12-6-10 NMSA 1978, and will perform, document, and approve asset inventory for FY19.

Responsible person(s): Board President
Board Treasurer
Bookkeeper
Office and operation assistant as needed
Consultant with StillWaters Consulting
Consultant with RCAC

Timeline of corrective action: Nine Months from the date of this report.

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

**2018-003 Insufficient Internal Controls over the Cash Disbursements Process –
Material Weakness**

Condition: We selected a sample of 38 cash disbursements. During testwork, it was noted that two of the disbursements to a utility vendor were recorded in the accounting records for a different amount than shown on the supporting documentation. For the two variances, the vendor was paid \$16.43 and \$16.72 more than recorded in the accounting system.

Criteria: The Association should keep permanent and legible records capable of audit. Additionally, sound internal control practices require invoice review and approvals prior to a cash disbursement being made.

Effect: Fraudulent payments could go undetected. Payments could be made in error.

Cause: The Association does not have policies and procedures related to payments automatically withdrawn from the bank account that require review and matching to supporting documents.

Auditor's Recommendation: It is recommended that the Association develop and implement sound policies and procedures related to the review and approval of vendor invoices.

Management's Response:

Corrective Action(s): Payments to electric utility are scheduled as automatic payments. Lybrook is currently working on reviewing policies and procedures to ensure that the review and approval of vendor invoices is completed and that the cash disbursements and recordkeeping entries are done accordingly, including those bills scheduled for automatic payments to make sure they have the proper supporting documentation and that entries reflect the payments correctly.

Lybrook staff is working with the electric company to resolve the discrepancies between the amounts billed and paid for those two invoices.

Responsible person(s): Board President
Board Treasurer
Bookkeeper
Consultant with StillWaters Consulting
Consultant with RCAC

Timeline of corrective action: On going, completion anticipated within six months.

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

2018-004 Mileage Reimbursements – Other Compliance

Condition: Eleven payroll disbursements were tested, all of which contained mileage reimbursements. All eleven mileage reimbursements were reimbursed at \$0.52 per mile instead of \$0.535 as required by the Per Diem and Mileage Act.

Criteria: Section 10-8-4(D) NMSA 1978. Every public officer or employee shall receive up to the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately-owned vehicle.

Effect: Employees received less than they should have for mileage reimbursements.

Cause: Lack of training of reviewers approving mileage reimbursements.

Recommendations: The Association should train reviewers on proper reimbursement rates.

Management's Response:

Corrective Action(s): The association will procure training on proper reimbursements rates and IRS requirements. These training needs will be included in the policies and procedures.

Responsible person(s): Board President
Board Treasurer
Bookkeeper
Consultant with StillWaters Consulting
Consultant with RCAC

Timeline of corrective action: Six months from the date of this report.

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

2018-005 Late Tier System Contract – Other Compliance

Condition: The Association did not complete and deliver a tier system contract to the New Mexico State Auditor's Office by the July 1 deadline.

Criteria: The New Mexico Office of the State Auditor Audit Rule section 2.2.2.8(F)(8)(e) requires Local Public Bodies that qualify for the tiered system pursuant to Subsections A and B of Section 2.2.2.16 NMAC should follow the procedures at Subsection D of Section 2.2.2.16 NMAC, and submit the required Recommendation Form for Tiered System Local Public Bodies and the completed signed agreed upon procedures contract to the State Auditor by July 1.

Effect: The Association is not in compliance with the State Auditor's Audit Rule.

Cause: There was turnover at the Association.

Auditor's Recommendations: The Association should develop a system to ensure that the tiered system contract is submitted by the required date.

Management's Response:

Corrective Action(s): The current board of directors and staff have continuously been making efforts to bring the organization into compliance with state and federal regulations, including the State Auditor's audit rule. The system was struggling financially for a long time, facing possible embezzlement that was reported and is currently under investigation with the State Auditor office and the State Police, and did not have the resources for completing audit requirements. This year, Lybrook received financial assistance from the State Auditor office to complete the AUP for 2018, and as of today, after implementing a rate adjustment and receiving payment from a fidelity insurance claim, the association has reserve funding for future audit requirements.

A procedure to comply with audit and other state and federal requirements will be included in the system's policies and procedures.

Responsible person(s): Board President
Board Treasurer
Bookkeeper
Consultant with StillWaters Consulting
Consultant with RCAC

Timeline of corrective action: Six months from the date of this report.

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

2018-006 Late Tiered Report – Other Compliance

Condition: The Association did not submit its tiered system report by the December 15, 2018 deadline required by the New Mexico State Auditor's Audit Rule.

Criteria: Public body agreed-upon procedure reports must be submitted to the New Mexico State Auditor by December 15th.

Effect: The Association may not be eligible for future grants or capital outlay money.

Cause: There has been turnover in the accounting and Board positions at the Authority.

Auditor's Recommendations: The Authority should consider hiring an outside consultant to help with compliance.

Management's Response:

Corrective Action(s): The current board of directors and staff have continuously been making efforts to bring the organization into compliance with state and federal regulations, including the State Auditor's audit rule. The board is already working with consultants to fully organized management and bring and keep the system in compliance with state and federal regulations.

Responsible person(s): Board President
Board Treasurer
Bookkeeper
Consultant with StillWaters Consulting
Consultant with RCAC

Timeline of corrective action: On going, completion anticipated within six months.

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

2018-007 Budget and Excess of Expenditures Over Authorized Budget – Other Compliance

Condition: The Association's expenditures exceeded the authorized budget by \$4,403.

In addition, the Association did not comply with the budget requirements to develop, approve, and submit a draft budget to DFA-LGD, submit quarterly report, use budget adjustments, and submit final year-end reports. The Association has received a notice from DFA-LGD which states that the Association does not need to comply with budget reporting in future years because the Associations anticipated revenues are less than \$50,000. Therefore, this condition is not addressed further in this finding.

Criteria: Section 6-6-6, NMSA 1978, required the Association to keep expenditures within budgeted amounts.

Effect: The Association may not have precise information for planning the activities and cash flows in the funds that are over budget.

Cause: Insufficient budget tracking procedures.

Auditor's Recommendations: The Association should develop a process to ensure that funds do not exceed their budgets.

Management's Response:

Corrective Action(s): Because of the previous administration's lack of recordkeeping, the current administration did not have access to accurate information for budgeting purposes. The current board of directors and staff have been and continue to make efforts to bring the organization into compliance with state and federal regulations, including DFA requirements. The board is already working with consultants to fully organize and improve recordkeeping and budgeting process based on more accurate information.

Responsible person(s): Board President
Board Treasurer
Bookkeeper
Consultant with StillWaters Consulting
Consultant with RCAC

Timeline of corrective action: On going, completion anticipated within six months.

**LYBROOK MUTUAL DOMESTIC WATER CONSUMERS' ASSOCIATION
EXIT CONFERENCE
Year Ended June 30, 2018**

An exit conference was held on June 29, 2019, and attended by the following:

Lybrook Mutual Domestic Water Consumers' Association

Odie Chapman, President

Karen Pereira, Consultant with the Rural Community Assistance Corporation

Porch & Associates LLC

Thad Porch, Managing Principal