

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND  
SEWAGE WORKS ASSOCIATION



AUDITED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL INFORMATION

YEARS ENDED JUNE 30, 2011 and 2010

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
Years Ended June 30, 2011 and 2010

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## **INTRODUCTORY SECTION**

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION

OFFICIAL ROSTER  
JUNE 30, 2011

<u>Name</u>	<u>Title</u>
<i>Board of Directors</i>	
Jim Wilcox	President
Danny Bass	Vice-President
Larry Coalson	Secretary/Treasurer
Jim Fry	Director
Shawn Mitchell	Director
<i>Association Officials</i>	
Cutter Rogers	General Manager
Lori Rogers	Office Manager

## **FINANCIAL SECTION**

# JW Anderson & Associates, PC

## Certified Public Accountants

### INDEPENDENT AUDITORS' REPORT

Hector Balderas  
New Mexico State Auditor, and  
The Chairman and Board of Directors  
Otis Mutual Domestic Water Consumers and  
Sewage Works Association  
Otis, New Mexico

We have audited the accompanying basic financial statements of Otis Mutual Domestic Water Consumers and Sewage Works Association as of ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

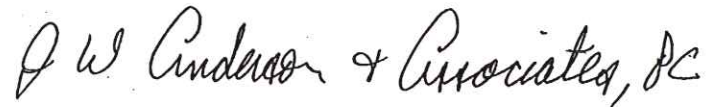
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all materials respects, the respective financial position of the Association as of June 30, 2011 and 2010 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2011 on our consideration of Otis Mutual Domestic Water Consumers and Sewage Works Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audits.

The Otis Mutual Domestic Water Consumers and Sewage Works Association has not presented the Management's Discussion and Analysis that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Our audit was performed for the purposes of forming an opinion on the financial statements as a whole. The accompanying schedules, listed as supplemental information in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "JW Anderson & Associates, PC".

JW Anderson & Associates, PC  
Certified Public Accountants  
Lubbock, Texas  
November 30, 2011

**BASIC FINANCIAL STATEMENTS**



OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
STATEMENTS OF NET ASSETS  
June 30, 2011 and 2010

ASSETS	2011	2010
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 791,140	\$ 592,378
Accounts Receivable	107,123	81,678
Inventory	199,150	209,121
<b>Total Current Assets</b>	<u>1,097,413</u>	<u>883,177</u>
<b>NONCURRENT ASSETS</b>		
Capital Assets, Net	2,120,108	2,173,693
<b>Total Assets</b>	<u>\$ 3,217,521</u>	<u>\$ 3,056,870</u>
<b>LIABILITIES AND MEMBERSHIP CAPITAL</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 579	\$ 91
Accrued Salaries	9,690	10,557
Accrued Payroll Taxes and Benefits	5,340	4,168
Sales Tax Payable	5,308	4,673
Compensated Absences	12,748	11,916
Customer Deposits	75,991	77,201
<b>Total Current Liabilities</b>	109,656	108,606
<b>MEMBERSHIP CAPITAL</b>		
Memberships	231,480	187,380
Capital Improvement and Water Rights Assessments	668,841	668,841
Federal Grants and Contributions	192,000	192,000
Unrestricted Net Assets	2,015,544	1,900,043
<b>Total Membership Capital</b>	<u>3,107,865</u>	<u>2,948,264</u>
<b>Total Liabilities and Membership Capital</b>	<u>\$ 3,217,521</u>	<u>\$ 3,056,870</u>

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Water Sales	\$ 936,651	\$ 798,692
Service and Late Fees	32,714	53,807
Lease and Rental Income	6,131	692
Miscellaneous	6,341	621
	<hr/>	<hr/>
<b>Total Operating Revenue</b>	981,837	853,812
<b>OPERATING EXPENSES</b>		
Salaries	260,492	259,726
Employee Benefits and Expenses	116,594	100,804
Water Purchases	31,797	33,566
Utilities	71,266	53,069
Repairs and Maintenance	80,589	35,907
Equipment Rental and Supplies	71,186	90,666
Insurance	20,441	20,550
Property and Other Taxes	10,580	33,478
Freight and Postage	6,605	7,206
Legal, Accounting and Other Contract Services	9,707	23,054
Auto Expense	47,578	32,948
Travel	2,138	3,712
Dues, Fees, Permits and Continuing Education	904	1,592
Office and Administrative Expense	19,433	12,468
Advertising	-	1,475
Other Expenses	4,633	700
Depreciation	113,585	107,767
	<hr/>	<hr/>
<b>Total Operating Expenses</b>	867,528	818,688
<b>Operating Income</b>	114,309	35,124
<b>NON-OPERATING REVENUES</b>		
Interest Income	1,192	1,812
Capital Grants and Contributions	-	43,297
	<hr/>	<hr/>
<b>Total Non-Operating Revenues</b>	1,192	45,109
<b>Increase in Net Assets</b>	<u>\$ 115,501</u>	<u>\$ 80,233</u>

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
STATEMENTS OF CHANGES IN MEMBERSHIP CAPITAL  
Years Ended June 30, 2011 and 2010

	<u>Memberships</u>	<u>Capital Improvement and Water Rights Assessments</u>	<u>Federal Grants and Contributions</u>	<u>Unrestricted Net Assets</u>	<u>Total</u>
Balance June 30, 2009 (1,661 members)	\$ 166,100	\$ 668,841	\$ 192,000	\$ 1,819,810	\$ 2,846,751
Repurchased Membership Rights	(4,720)	-	-	-	(4,720)
Resale of Membership Rights	26,000	-	-	-	26,000
Increase in Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,233</u>	<u>80,233</u>
Balance June 30, 2010 (1,665 members)	187,380	668,841	192,000	1,900,043	2,948,264
Resale of Membership Rights	44,100	-	-	-	44,100
Increase in Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,501</u>	<u>115,501</u>
Balance June 30, 2011 (1,674 members)	<u>\$ 231,480</u>	<u>\$ 668,841</u>	<u>\$ 192,000</u>	<u>\$ 2,015,544</u>	<u>\$ 3,107,865</u>

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 968,005	\$ 884,598
Payments To and On Behalf of Employees	(396,296)	(385,704)
Payments to Suppliers and Contractors	(353,683)	(397,004)
Other Receipts and Payments, Net	<u>(4,556)</u>	<u>(8,632)</u>
<b>Net Cash Provided By Operating Activities</b>	213,470	93,258
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Capital Assets	(60,000)	(145,241)
Interest Income	<u>1,192</u>	<u>1,812</u>
<b>Net Cash Used By Investing Activities</b>	(58,808)	(143,429)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Sale of Membership Rights	44,100	26,000
Purchase of Membership Rights	-	(4,720)
Capital Grants and Contributions	<u>-</u>	<u>55,830</u>
<b>Net Cash Provided By Financing Activities</b>	<u>44,100</u>	<u>77,110</u>
<b>Net Increase in Cash and Cash Equivalents</b>	198,762	26,939
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>592,378</u>	<u>565,439</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 791,140</u></u>	<u><u>\$ 592,378</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Increase in Operating Income	\$ 114,309	\$ 35,124
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation	113,585	107,767
<b>Changes in</b>		
Accounts Receivable	(25,445)	(14,052)
Inventory	9,971	(26,710)
Accounts Payable	488	(20,655)
Accrued Salaries	(867)	3,839
Compensated Absences	832	1,374
Accrued Payroll Taxes	1,172	3,882
Sales Tax Payable	635	(362)
Customer Deposits	<u>(1,210)</u>	<u>3,051</u>
<b>Net Cash Provided By Operating Activities</b>	<u><u>\$ 213,470</u></u>	<u><u>\$ 93,258</u></u>

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - Otis Mutual Domestic Water Consumers and Sewage Works Association (Association) is a not-for-profit Mutual Domestic Association established for the purpose of constructing, maintaining and operating a water and wastewater system for the members of the Association in the Otis community in southern Eddy County of New Mexico. The Association was initially incorporated as a Cooperative Association, but the Board of Directors changed the form of organization from a not-for-profit cooperative to a not-for-profit association under the Sanitary Projects Act (SPA), NMSA 3-29-1 through 3-29-20, effective July 1, 2005.

Under the SPA, 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) concluded that entities created under the SPA are subject to the New Mexico Audit Act. Additionally, another AG opinion (68-38) states Mutual Domestic Associations (MDA) under the SPA are created for "one purpose only, and that is to establish and maintain a water system." Further it concluded MDAs are not municipal corporations. HB 297, enacted during the 2009 legislative session, exempts MDAs from being subject to ad valorem taxes.

Associations created pursuant to the Sanitary Projects Act (3-29-1 NMSA 1978) are subject to audit under the Audit Act 12-6-2, NMSA 1978 and State Audit Rule 2.2.2 NMAC. However, the policy of the Office of the State Auditor has been to exempt Mutual Domestic Water Associations (MDWA's) from the requirement to receive an annual audit unless one of the following circumstances requires an audit: the MDWA's bylaws or governing board require an annual audit; a state agency (such as the NM Environment Department) that has provided the MDWA with a grant or pass-down federal funds requires that MDWA obtain an audit; the Office of the State Auditor requires an audit; or the MDWA expends \$500,000 or more of federal funds during a fiscal year, requiring a Single Audit.

The Association is considered to be a special-purpose governmental entity in accordance with Governmental Accounting Standards Board Statement No. 14. The Association is not a component unit of a governmental entity nor does it have any component units. This conclusion was reached because the Association was converted from a cooperative to an MDWA, pursuant to NMSA 3-29-20, by a vote of the Board of Directors rather than through legislative action or action by the entire membership; it does not have the ability to levy taxes but it does have the ability to set and change rates for service, it continues to file not-for-profit tax returns, it is not a subdivision of any governmental entity.

Attorney General Opinion 06-02 determined that MDWAs created pursuant to the Sanitary Projects Act, NMSA 1978 are public bodies/political subdivisions, whose revenues are "public money" and 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 MDWA's have officially been determined to be governmental nonprofit organizations, their financial statements must follow the government format as described in GASB 34 beginning with the fiscal year ending June 30, 2007.

The Board of Directors consists of five members elected by the membership. The Board shall appoint qualified personnel to guide and direct the operations of the Association, and to approve all major contracts, capital outlay, etc involving the Association.

**Change in Bylaws** - In June, 2009, the Board of Directors and the general membership approved a change in the bylaws which reclassifies how the Association records the \$5,200 initial membership purchase amount.

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2011 and 2010

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Basis of Presentation** - The Association is required to report information regarding its financial position and activities according to three classes of membership equity: unrestricted membership equity, temporarily restricted membership equity, and permanently restricted membership equity. The Association only has unrestricted membership equity. Unrestricted membership equity is defined as net assets not subject to donor-imposed stipulations.

The business-type financial statements are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. Miscellaneous revenues are recorded as revenue when received because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

All activities of the Association are accounted for within a proprietary (enterprise) fund. Proprietary funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Association is classified as a special purpose government and is required to meet the requirements for being reported under criteria prescribed by GASB 34.

GASB Statement Number 20 requires that governments' proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Association has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

**Deposits and Investments** - For purposes of the statement of cash flows, the Association's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables** - Substantially all of the Association's outstanding receivables are due from its customers for water sales. Collateral is generally not required on receivables, but a deposit is required to activate new service. It is the opinion of management that no allowance for doubtful accounts was necessary as of June 30, 2011 and 2010.

**Concentration of Credit Risk** - The Association grants credit without collateral to its customers for its services, but the customers are subject to service termination if the receivables are not settled within a specified time frame.

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
 AND SEWAGE WORKS ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 June 30, 2011 and 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Inventory** - Inventory includes water pipe and supplies for future water system installation and repairs. Inventory is valued at the lower of cost or market on a first-in, first-out basis.

**Property and Equipment** - The Association’s policy is to capitalize all expenditures for furniture, equipment and software in excess of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Items with a cost of less than \$5,000 are expensed in the year of acquisition, except for costs associated with the installation of new water lines, pumps and tanks, which are capitalized. Expenditures related to the maintenance of the existing water system are expensed in the current period. Assets acquired under capital leases are amortized over the life of the respective leases or the service lives of the assets using the straight-line method and the amortization is included with depreciation expense.

Assets of the Association are depreciated using the sraight-line method over the following estimated useful lives:

Assets	Years
Leasehold improvements	40
Water lines, pumps and tanks	20-40
Office and maintenance equipment	5 – 7
Vehicles	5

**Grants and Contributions** - The Association receives grants as well as contributions in the course of operations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Operating and Nonoperating Revenues** - Operating revenue includes activities which have the characteristics of exchange transactions, such as patient services and contracts and grants. Nonoperating revenues include activities which have the characteristics of non-exchange transactions, such as investment income and ad valorem taxes. These revenue streams are recognized under GASB Statement No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*.

**Income Taxes** - The Association operates as a 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.

**Budgetary Data** - As a governmental non-profit organization, the Association’s annual budget is not subject to having to be presented to the New Mexico Department of Finance and Administration for review, adjustment or approval. Accordingly, no formal budget has been adopted or presented as supplemental information.

**Use of Restricted Cash** - When the Association incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

**Compensated Absences** - It is the Association’s policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. All sick pay and vacation pay is accrued when incurred.

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2011 and 2010

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Advertising** - Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2010 was approximately \$1,475. There were no payments for advertising during the year ended June 30, 2011.

**Risk Management** - The Association is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any preceding years.

**Subsequent Events** - FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or were available to be issued. Management has evaluated subsequent events through November 30, 2011, the date the financial statements were available to be issued.

**Fair Value Measurement** - ASC 820-10-50-1 defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. This statement establishes a hierarchy that prioritizes the methods used to measure fair value such that the highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1). Second priority is for quoted prices for similar assets in active or inactive markets, or valuations from other sources than quoted prices or other market data that can be observed, correlated or corroborated (Level 2), and the lowest priority to unobservable methods (Level 3). Currently, all the Clinic's instruments are valued using Level 1 valuation methods.

**NOTE B - EMINENT DOMAIN CONTINGENCY RISK**

The Association is not servicing any debt, thereby exposing the Association to a potential risk of being absorbed by the local municipality through eminent domain proceedings. Management feels the risk of the eminent domain proceedings is minimal.

**NOTE C - CASH AND CASH EQUIVALENTS**

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Association does not have a formal deposit policy for custodial credit risk other than following the state statutes as put forth in the Public Money Act (Sec. 6-10-1 to 6-10-63, NMSA 1978).

Time deposits, savings deposits and interest bearing NOW accounts in an institution are insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for demand deposits at the same institution by the FDIC. FDIC changed its policy of coverage in October, 2008 and will maintain the additional coverage until December, 2013, where it will revert back to the original \$100,000 coverage. Deposits above the FDIC limitations may be secured by the financial institution through pledging securities held by institution as collateral against the Association's deposits above the FDIC limitations. Section 6-10-17 NMSA 1978 require a minimum of 50% of the deposited funds with each institution be collateralized by the institution.



OTIS MUTUAL DOMESTIC WATER CONSUMERS  
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NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2011 and 2010

**NOTE C - CASH AND CASH EQUIVALENTS - Continued**

The types of collateral an institution is permitted to use as pledged securities are limited to direct obligations of the United States Government and all bonds issued by any agency or political subdivision of the State of New Mexico. The Association was exposed to custodial credit risk of \$233,354 and \$106,040 for the fiscal years ending June 30, 2011 and 2010.

The amounts of the Association's secured and unsecured cash deposits are as follows.

	2011		2010	
	Western Commerce Bank		Western Commerce Bank	
Cash and Cash Equivalents	\$	791,140	\$	592,378
Cash on Hand		(300)		(300)
Reconciling Items		<u>(460)</u>		<u>6,047</u>
Total on Deposit		790,380		598,125
Less FDIC Coverage		<u>(250,000)</u>		<u>(250,000)</u>
Amount to be Collateralized		540,380		348,125
50% Collateral Requirement			\$ 270,190	\$ 174,063
Securities Pledged by the Financial Institution Held by their Trust Department		<u>(307,026)</u>	<u>(307,026)</u>	<u>(242,085)</u>
			<u>(242,085)</u>	<u>(242,085)</u>
Under (Over) Collateralized	\$	<u>233,354</u>	\$	<u>(36,836)</u>
			\$	<u>106,040</u>
			\$	<u>(68,023)</u>

**NOTE D - CAPITAL ASSETS**

The majority of the assets of the Association are located on land not owned by the Association, but are constructed on private easements for the specific and registered use of the Association or within the public utility right-of-way associated with public roads granted by plats from the county. Leasehold improvements and equipment capital asset activity for each year is detailed below.

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2011 and 2010

**NOTE D - CAPITAL ASSETS - Continued**

	Balance 6/30/09	Increases	Decreases	Balance 6/30/10	Increases	Decreases	Balance 6/30/11
<i>Nondepreciable Assets</i>							
Land and Water Rights	\$ 977,560	\$ 23,451	\$ -	\$ 1,001,011	\$ 60,000	\$ -	\$ 1,061,011
<i>Depreciable Assets</i>							
Building and Well House	140,738	-	-	140,738	-	-	140,738
System Water Lines	1,617,073	16,128	-	1,633,201	-	-	1,633,201
Wells and Tanks	1,083,817	49,104	-	1,132,921	-	-	1,132,921
Tools and Equipment	475,033	56,558	(22,168)	509,423	-	-	509,423
<b>Total Depreciable Assets</b>	<b>4,294,221</b>	<b>145,241</b>	<b>(22,168)</b>	<b>4,417,294</b>	<b>60,000</b>	<b>-</b>	<b>4,477,294</b>
<i>Less Accumulated Depreciation</i>							
Building and Well House	(91,112)	(6,020)	-	(97,132)	(6,020)	-	(103,152)
System Water Lines	(1,122,845)	(40,466)	-	(1,163,311)	(40,830)	-	(1,204,141)
Wells and Tanks	(553,828)	(35,175)	-	(589,003)	(36,668)	-	(625,671)
Tools and Equipment	(390,217)	(26,106)	22,168	(394,155)	(30,067)	-	(424,222)
<b>Total Accumulated Depreciation</b>	<b>(2,158,002)</b>	<b>(107,767)</b>	<b>22,168</b>	<b>(2,243,601)</b>	<b>(113,585)</b>	<b>-</b>	<b>(2,357,186)</b>
<b>Net Capital Assets</b>	<b>\$ 2,136,219</b>	<b>\$ 37,474</b>	<b>\$ -</b>	<b>\$ 2,173,693</b>	<b>\$ (53,585)</b>	<b>\$ -</b>	<b>\$ 2,120,108</b>

Depreciation expense was \$113,585 and \$107,767 for the years ended June 30, 2011 and 2010, respectively.

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
 AND SEWAGE WORKS ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 June 30, 2011 and 2010

**NOTE E - COMPENSATED ABSENCES**

Vacation and sick leave is earned by employees during the year based on time worked, is non-cumulative and considered to be payable within one year. Vacation leave due, if any, is paid upon an employee's termination. Compensation for sick leave is limited to time-off and is not monetarily compensated. The activity of the vacation leave due to employees as of June 30, 2011 and 2010 is detailed below.

	<u>Balance</u> <u>6/30/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/10</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/11</u>
Compensated Absences	\$ 10,542	\$ 13,059	\$ (11,685)	\$ 11,916	\$ 14,650	\$ (13,818)	\$ 12,748

**NOTE F - RELATED PARTY TRANSACTIONS**

A current board member owns and operates an auto repair business close to the Association's office. As a convenience, the Association sometimes has vehicles repaired at the board member's business. Rates charged to the Association are comparable to other auto repair businesses in the immediate area. Total amount paid to the board member for auto repair services for the year ended June 30, 2011 and 2010 is approximately \$11,276 and \$5,445, respectively.

**NOTE G - DEFINED CONTRIBUTION PENSION PLAN**

**Plan Description** - The Association's full-time employees have elected participate in a public employee retirement system authorized under the Public Employees' Retirement Act (PERA) (Chapter 10, Article 11, NMSA 1978) PERA is the administrator of the plan, which is a multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87501-2123.

**Funding Policy** - Plan members will be required to contribute 9.15% of their gross salary, excluding any overtime. The Association will be required to contribute a matching 9.15% for all employees. The contribution requirements of plan members and the Association are established in Chapter 10, Article 7C, NMSA 1978. These requirements may be amended by acts of the legislature. Contributions for the years ended June 30, 2011 and 2010 were \$18,719 and \$17,924, respectively.

The Association does not provide any other type of deferred compensation or retirement benefits, nor does it participate in the Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978).

## **SUPPLEMENTAL INFORMATION**

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF DEPOSITS AND TEMPORARY INVESTMENTS  
Years Ended June 30, 2011 and 2010

Name of Depository	Account Type	Bank Balance June 30, 2011	Net Reconciling Items	Reconciled Balance June 30, 2011
Western Commerce Bank	Interest Checking	\$ 559,261	\$ 18,958	\$ 578,219
Western Commerce Bank	Money Market	231,119	(18,498)	212,621
		<u>\$ 790,380</u>	<u>\$ 460</u>	<u>\$ 790,840</u>

**Reconciliation to Basic Financial Statements**

Total Association Cash

Cash Deposits  
Petty Cash

\$ 790,840  
300

Total Cash \$ 791,140

Name of Depository	Account Type	Bank Balance June 30, 2010	Net Reconciling Items	Reconciled Balance June 30, 2010
Western Commerce Bank	Interest Checking	\$ 449,521	\$ (6,047)	\$ 443,474
Western Commerce Bank	Money Market	148,604	-	148,604
		<u>\$ 598,125</u>	<u>\$ (6,047)</u>	<u>\$ 592,078</u>

**Reconciliation to Basic Financial Statements**

Total Association Cash

Cash Deposits  
Petty Cash

\$ 592,078  
300

Total Cash \$ 592,378

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY  
FOR PUBLIC FUNDS  
June 30, 2011

Name of Depository	Pledged Collateral	CUSIP	Name and Location of Custodian	Fair Market Value June 30, 2011
Western Commerce Bank	FHLMC #420166 Matures 1/1/2020	31346AFF7	Federal Home Loan Bank Dallas, TX	\$ 51,718
Western Commerce Bank	GNMA #8263 Matures 9/20/2017	36202KFC4	Federal Home Loan Bank Dallas, TX	47,929
Western Commerce Bank	GNMA #8453 Matures 1/20/2019	36202KMA0	Federal Home Loan Bank Dallas, TX	47,408
Western Commerce Bank	FHLMC #780771 Matures 8/1/2033	31342A2C2	Federal Home Loan Bank Dallas, TX	46,826
Western Commerce Bank	GNMA #8792 Matures 1/20/2019	36202KXV2	Federal Home Loan Bank Dallas, TX	57,832
Western Commerce Bank	GNMA #80185 Matures 04/20/2028	36225CF35	Federal Home Loan Bank Dallas, TX	<u>55,313</u>
				<u>\$ 307,026</u>

## **COMPLIANCE**

# JW Anderson & Associates, PC

## Certified Public Accountants

### 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*

Hector Balderas  
New Mexico State Auditor, and  
The Chairman and Board of Directors  
Otis Mutual Domestic Water Consumers  
and Sewage Works Association  
Otis, New Mexico

We have audited the accompanying basic financial statements of Otis Mutual Domestic Water Consumers and Sewage Works Association as of and for the years ended June 30, 2011, and have issued our report thereon dated November 30, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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 a 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of audit findings as items 2011-1, which we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

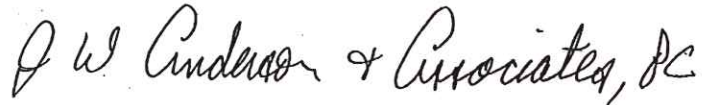


**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Otis Mutual Domestic Water Consumers and Sewage Works 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* and Section 12-6-5 NMSA 1978.

The Association's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Association's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Association's management and Board of Directors, New Mexico Office of the State Auditor, the New Mexico Legislature, New Mexico Department of Finance and Administration and applicable state and federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.



JW Anderson & Associates, PC  
Certified Public Accountants  
Lubbock, Texas  
November 30, 2011

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
June 30, 2011 and 2010

**Prior Year**

**2010-1 Segregation of Duties - Repeated**

**Current Year**

**2011-1 Segregation of Duties**

CONDITION - The Association has a lack of segregation of duties due to personnel constraints.

CRITERIA - Segregation of certain specific accounting and administrative functions is needed to minimize concentration of internal control and reduce the possibility of overriding of controls.

CAUSE - Personnel and funding limitations have relegated the Association to consolidate some incompatible accounting and administrative functions.

EFFECT - The lack of proper segregation of duties is common in smaller and medium Associations that are forced to control personnel costs at the expense of improved control.

RECOMMENDATION - Although the Association has compensating controls in place to reduce the effect of the lack of segregation of duties, we recommend management periodically evaluate whether its level of control is appropriate for the current situation.

RESPONSE - The Association will continually monitor the internal control environment and adjust policies and procedures when conflicts in internal control arise.

OTIS MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
EXIT CONFERENCE  
June 30, 2011 and 2010

The contents of this report were discussed with the Otis Mutual Domestic Water Consumers and Sewage Works Association representatives on September 1, 2011. The following individuals were available for the conference:

Otis MDWC & SWA

Lori Rogers, Office Manager  
Larry Coalson, Board Member  
Danny Bass, Board Member  
Cutter Rogers, General Manager

J.W. Anderson & Associates, PC

Larry Anderson, President  
Jerry Hill, Audit Manager

The financial statements of Otis Mutual Domestic Water Consumers and Sewage Works Association were prepared from original books and records provided by and with assistance from the management of the Association and J.W. Anderson & Associates, PC.

Although standards strongly emphasizes that the Association prepare its own financial statements, the consensus between the Association management and the auditors was that it would be more time and cost efficient for the auditors to prepare the financial statements and the related notes. Accordingly, the Association has designated a competent management-level individual to oversee the auditors' services and have made all management decisions and performed all management functions. The Association has reviewed, approved, and accepted responsibility for the accompanying financial statements and related notes, and for ensuring that the underlying accounting records adequately support the preparation of the financial statements in accordance with generally accepted accounting principles and that the records are current and in balance.

# JW Anderson & Associates, PC

## Certified Public Accountants

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Hector Balderas  
New Mexico State Auditor, and  
The Chairman and Board of Directors  
Otis Mutual Domestic Water Consumers and  
Sewage Works Association  
Otis, New Mexico

We have audited the accompanying basic financial statements of Otis Mutual Domestic Water Consumers and Sewage Works Association as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibility under Generally Accepted Auditing Standards and *Government Auditing Standards***

As communicated in our engagement letter dated July 20, 2011, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audits of the financial statements do not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Otis Mutual Domestic Water Consumers and Sewage Works Association solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated November 30, 2011.

## **Other Information in Documents Containing Audited Financial Statements**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Associations's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Association is included in Note A to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the 2011 fiscal year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is depreciation of capital assets.

Management's estimate of depreciation is based on the historical basis and useful lives of the capital assets. We evaluated the key factors and assumptions used to develop the depreciation expense and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Association's financial statements relate to custodial credit risk and unsecured and uncollateralized cash and cash equivalents.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There were no uncorrected financial statement misstatements whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material misstatements that we identified as a result of our audit procedures to be brought to the attention of, and corrected by, management.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Association's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in a separate letter dated November 30, 2011.

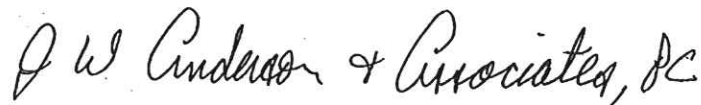
### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Findings or Issues**

In the normal course of our professional association with the Association, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Association's auditors.

This report is intended solely for the information and use of the Association's management and Board of Directors, New Mexico Office of the State Auditor, the New Mexico Legislature, New Mexico Department of Finance and Administration and applicable state and federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.



JW Anderson & Associates, PC  
Certified Public Accountants  
Lubbock, Texas  
November 30, 2011