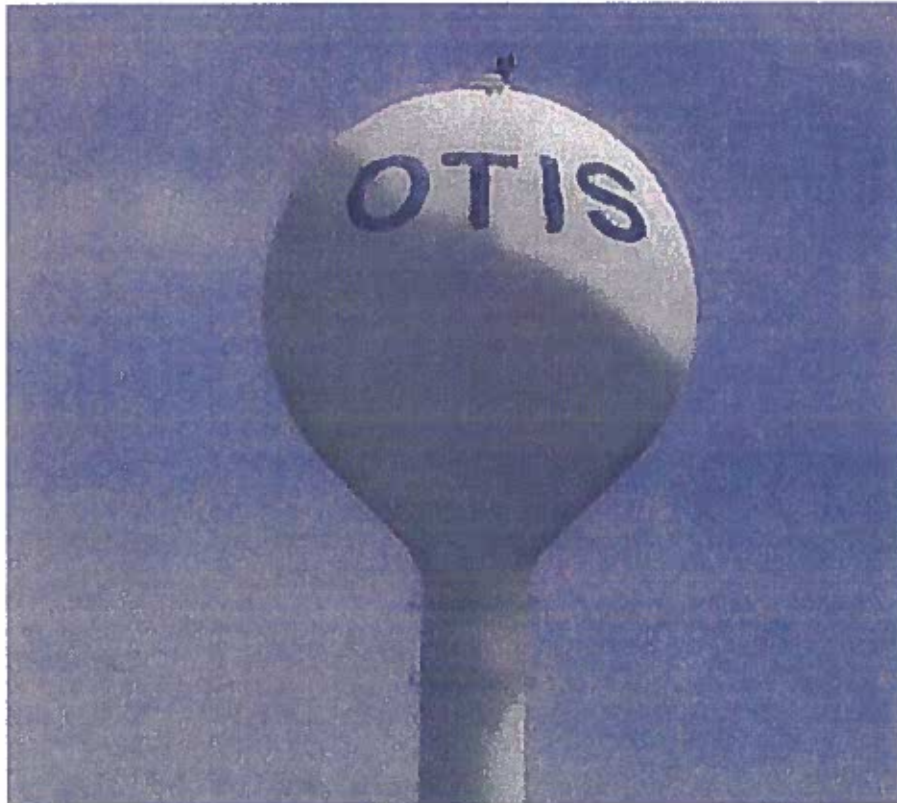


**OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND
SEWAGE WORKS ASSOCIATION**



**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

YEARS ENDED JUNE 30, 2013 and 2012

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
Years Ended June 30, 2013 and 2012

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INTRODUCTORY SECTION

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION

OFFICIAL ROSTER
JUNE 30, 2013

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the business-type activities of Otis Mutual Domestic Water Consumers & Sewage Works Association as of June 30, 2013 and 2012, and for the years then ended, and the related notes to the financial statements, which collectively comprise Otis Mutual Domestic Water Consumers & Sewage Works Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Otis Mutual Domestic Water Consumers & Sewage Works Association's 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 misstatement, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the business-type activities referred to above present fairly, in all material respects, the financial position of the business-type activities of Otis Mutual Domestic Water Consumers & Sewage Works Association as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

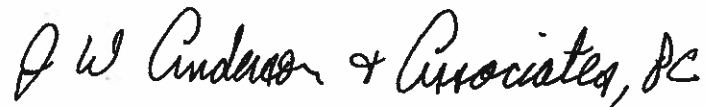
Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Otis Mutual Domestic Water Consumers & Sewage Works Association's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have issued our report dated June 27, 2014 on our consideration of Otis Mutual Domestic Water Consumers & Sewage Works Association's internal control over financial reporting and 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 and should be considered in assessing the results of our audit.



JW Anderson & Associates, PC
Certified Public Accountants
Lubbock, Texas
June 27, 2014

BASIC FINANCIAL STATEMENTS

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

| ASSETS | 2013 | 2012 |
|--|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 1,020,443 | \$ 817,819 |
| Accounts Receivable | 193,500 | 115,042 |
| Grant Receivable | 113,565 | - |
| Inventory | 227,783 | 215,372 |
| Total Current Assets | <u>1,555,291</u> | <u>1,148,233</u> |
| NONCURRENT ASSETS | | |
| Capital Assets, Net | 2,504,216 | 2,438,204 |
| Total Assets | <u>\$ 4,059,507</u> | <u>\$ 3,586,437</u> |
| LIABILITIES AND MEMBERSHIP CAPITAL | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ (2,102) | \$ (981) |
| Accrued Salaries | 2,272 | 6,864 |
| Accrued Payroll Taxes and Benefits | 17,967 | 153 |
| Sales Tax Payable | 9,937 | 5,673 |
| Compensated Absences | 17,970 | 14,527 |
| Customer Deposits | 75,650 | 75,883 |
| Current Portion of Long-Term Debt | 104,577 | - |
| Total Current Liabilities | <u>226,271</u> | <u>102,119</u> |
| MEMBERSHIP CAPITAL | | |
| Memberships | 319,880 | 283,480 |
| Capital Improvement and Water Rights Assessments | 668,841 | 668,841 |
| Federal Grants and Contributions | 192,000 | 192,000 |
| Unrestricted Net Assets | 2,652,515 | 2,339,997 |
| Total Membership Capital | <u>3,833,236</u> | <u>3,484,318</u> |
| Total Liabilities and Membership Capital | <u>\$ 4,059,507</u> | <u>\$ 3,586,437</u> |

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|-------------------|-------------------|
| OPERATING REVENUES | | |
| Water Sales | \$ 1,213,920 | \$ 998,984 |
| Service and Late Fees | 2,333 | 68,521 |
| Lease and Rental Income | 2,210 | 609 |
| Miscellaneous | 5,569 | 10,761 |
| | <u>1,224,032</u> | <u>1,078,875</u> |
| Total Operating Revenue | 1,224,032 | 1,078,875 |
| OPERATING EXPENSES | | |
| Salaries | 288,309 | 284,546 |
| Employee Benefits and Expenses | 144,693 | 133,573 |
| Water Purchases | 38,009 | 45,362 |
| Utilities | 65,371 | 78,881 |
| Repairs and Maintenance | 176,747 | 70,012 |
| Equipment Rental and Supplies | 147,440 | 69,322 |
| Insurance | 21,130 | 22,661 |
| Property and Other Taxes | 24,212 | 15,801 |
| Freight and Postage | 9,174 | 7,839 |
| Legal, Accounting and Other Contract Services | 9,811 | 76,398 |
| Auto Expense | 41,364 | 53,620 |
| Travel | 5,165 | 6,007 |
| Dues, Fees, Permits and Continuing Education | 866 | 603 |
| Office and Administrative Expense | 16,807 | 30,712 |
| Advertising | 3,033 | 2,564 |
| Other Expenses | 603 | 300 |
| Depreciation | 118,387 | 113,104 |
| | <u>1,111,121</u> | <u>1,011,305</u> |
| Total Operating Expenses | 1,111,121 | 1,011,305 |
| Operating Income | 112,911 | 67,570 |
| NON-OPERATING REVENUES | | |
| Interest Income | 1,007 | 883 |
| Capital Grants and Contributions | 198,698 | 256,000 |
| | <u>199,607</u> | <u>256,883</u> |
| Total Non-Operating Revenues | 199,607 | 256,883 |
| Increase in Net Position | \$ 312,518 | \$ 324,453 |

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERSHIP CAPITAL
Years Ended June 30, 2013 and 2012

| | <u>Memberships</u> | <u>Capital Improvement and Water Rights Assessments</u> | <u>Federal Grants and Contributions</u> | <u>Unrestricted Net Position</u> | <u>Total</u> |
|---------------------------------------|--------------------|---|---|--------------------------------------|---------------------|
| Balance June 30, 2011 (1,674 members) | \$ 231,480 | \$ 668,841 | \$ 192,000 | \$ 2,015,544 | \$ 3,107,865 |
| Resale of Membership Rights | 52,000 | - | - | - | 52,000 |
| Increase in Net Position | <u>-</u> | <u>-</u> | <u>-</u> | <u>324,453</u> | <u>324,453</u> |
| Balance June 30, 2011 (1,684 members) | 283,480 | 668,841 | 192,000 | 2,339,997 | 3,484,318 |
| Resale of Membership Rights | 36,400 | - | - | - | 36,400 |
| Increase in Net Position | <u>-</u> | <u>-</u> | <u>-</u> | <u>312,518</u> | <u>312,518</u> |
| Balance June 30, 2012 (1,643 members) | <u>\$ 319,880</u> | <u>\$ 668,841</u> | <u>\$ 192,000</u> | <u>\$ 2,652,515</u> | <u>\$ 3,833,236</u> |

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | \$ 1,199,212 | \$ 1,103,873 |
| Payments To and On Behalf of Employees | (444,938) | (516,088) |
| Payments to Suppliers and Contractors | (582,948) | (428,505) |
| Other Receipts and Payments, Net | <u>(11,322)</u> | <u>(10,284)</u> |
| Net Cash Provided By Operating Activities | 160,004 | 148,996 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Capital Assets | (184,497) | (431,200) |
| Interest Income | <u>1,007</u> | <u>883</u> |
| Net Cash Used By Investing Activities | (183,490) | (430,317) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Sale of Membership Rights | 36,400 | 52,000 |
| Proceeds from Advances on Long-Term Debt | 104,577 | - |
| Capital Grants and Contributions | <u>85,133</u> | <u>256,000</u> |
| Net Cash Provided By Financing Activities | <u>226,110</u> | <u>308,000</u> |
| Net Increase in Cash and Cash Equivalents | 202,624 | 26,679 |
| Cash and Cash Equivalents at Beginning of Year | <u>817,819</u> | <u>791,140</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,020,443</u> | <u>\$ 817,819</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Increase in Operating Income | \$ 112,911 | \$ 67,570 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | |
| Depreciation | 118,387 | 113,104 |
| Changes in | | |
| Accounts Receivable | (78,458) | (7,919) |
| Inventory | (12,411) | (16,222) |
| Accounts Payable | (1,121) | (1,560) |
| Accrued Salaries | (4,592) | (2,826) |
| Compensated Absences | 3,443 | 1,779 |
| Accrued Payroll Taxes | 17,814 | (5,187) |
| Sales Tax Payable | 4,264 | 365 |
| Customer Deposits | <u>(233)</u> | <u>(108)</u> |
| Net Cash Provided By Operating Activities | <u>\$ 160,004</u> | <u>\$ 148,996</u> |

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 follow the governmental format as prescribed by the Governmental Accounting Standards Board.

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.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013 and 2012

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.

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, 2013 and 2012.

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.

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.

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.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013 and 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 straight-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.

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.

Advertising - Advertising costs are expensed as incurred. Advertising costs for the years ended June 30, 2013 and 2012 was \$3,033 and \$2,563, respectively.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 - Management has evaluated subsequent events through June 27, 2014, the date the financial statements were available to be issued.

NOTE B - CASH AND CASH EQUIVALENTS

Time deposits, savings deposits and interest bearing NOW accounts in an institution are insured up to certain limits by the FDIC. 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.

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 \$125,017 and \$296,010 for the fiscal years ending June 30, 2013 and 2012.

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

| | 2013 | | 2012 | |
|---|-----------------------|---------------------|-----------------------|--------------------|
| | Western Commerce Bank | | Western Commerce Bank | |
| Cash and Cash Equivalents | \$ 1,020,443 | | \$ 817,819 | |
| Cash on Hand | (300) | | (300) | |
| Reconciling Items | <u>61,231</u> | | <u>122,030</u> | |
| Total on Deposit | 1,081,374 | | 939,549 | |
| Less FDIC Coverage | <u>(500,000)</u> | | <u>(250,000)</u> | |
| Amount to be Collateralized | 581,374 | | 689,549 | |
| 50% Collateral Requirement | | \$ 290,687 | | \$ 344,775 |
| Securities Pledged by the Financial Institution Held by their Trust Department | <u>(456,357)</u> | <u>(456,357)</u> | <u>(393,539)</u> | <u>(393,539)</u> |
| Under (Over) Collateralized | <u>\$ 125,017</u> | <u>\$ (165,670)</u> | <u>\$ 296,010</u> | <u>\$ (48,765)</u> |

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013 and 2012

NOTE B - CASH AND CASH EQUIVALENTS - Continued

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).

NOTE C - 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.

| | Balance 6/30/11 | Increases | Decreases | Balance 6/30/12 | Increases | Decreases | Balance 6/30/13 |
|---------------------------------------|---------------------|-------------------|-------------|---------------------|------------------|-------------|---------------------|
| <i>Nondepreciable Assets</i> | | | | | | | |
| Land and Water Rights | \$ 1,061,011 | \$ 361,800 | \$ - | \$ 1,422,811 | \$ 6,650 | \$ - | \$ 1,429,461 |
| <i>Depreciable Assets</i> | | | | | | | |
| Building and Well House | 140,738 | - | - | 140,738 | 10,200 | - | 150,938 |
| System Water Lines | 1,633,201 | - | - | 1,633,201 | - | - | 1,633,201 |
| Wells and Tanks | 1,132,921 | - | - | 1,132,921 | 27,124 | - | 1,160,045 |
| Tools and Equipment | 509,423 | 69,400 | - | 578,823 | - | - | 578,823 |
| Construction in Progress | - | - | - | - | 140,425 | - | 140,425 |
| Total Depreciable Assets | 4,477,294 | 431,200 | - | 4,908,494 | 184,399 | - | 5,092,893 |
| <i>Less Accumulated Depreciation</i> | | | | | | | |
| Building and Well House | (103,152) | (5,452) | - | (108,604) | (4,862) | - | (113,466) |
| System Water Lines | (1,204,141) | (40,942) | - | (1,245,083) | (40,830) | - | (1,285,913) |
| Wells and Tanks | (625,671) | (36,090) | - | (661,761) | (37,396) | - | (699,157) |
| Tools and Equipment | (424,222) | (30,620) | - | (454,842) | (35,299) | - | (490,141) |
| Total Accumulated Depreciation | (2,357,186) | (113,104) | - | (2,470,290) | (118,387) | - | (2,588,677) |
| Net Capital Assets | \$ 2,120,108 | \$ 318,096 | \$ - | \$ 2,438,204 | \$ 66,012 | \$ - | \$ 2,504,216 |

Depreciation expense was \$118,387 and \$113,104 for the years ended June 30, 2013 and 2012, respectively.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013 and 2012

NOTE D - 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, 2013 and 2012 is detailed below.

| | <u>Balance</u> <u>6/30/11</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>6/30/12</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>6/30/13</u> |
|----------------------|----------------------------------|------------------|--------------------|----------------------------------|------------------|--------------------|----------------------------------|
| Compensated Absences | <u>\$ 12,748</u> | <u>\$ 12,023</u> | <u>\$ (10,244)</u> | <u>\$ 14,527</u> | <u>\$ 17,151</u> | <u>\$ (13,708)</u> | <u>\$ 17,970</u> |

NOTE E - 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, 2013 and 2012 is approximately \$6,103 and \$12,462, respectively.

NOTE F - 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, 2013 and 2012 were \$20,860 and \$22,054, 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).

NOTE G - CONSTRUCTION LOAN

During the fiscal year and subsequent to year end, Otis Mutual Domestic Water Consumers & Sewage Works Association received draws on a loan through the New Mexico Environment Department Construction Programs Bureau Rural Infrastructure Program. The total outstanding as of June 30, 2013 totaled \$104,577. The final loan agreement was not in effect until after year end. The total amount of the note as of the report date was \$313,876. The note will bear interest at 3% and will have 20 annual payments beginning March 19, 2015.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013 and 2012

NOTE H - SUBSEQUENT PRONOUNCEMENTS

In March 2012, GASB Statement No. 65 Items Previously Reported as Assets and Liabilities was issued. The provisions of this Statement are effective for financial statements with periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2013.

In March 2012, GASB Statement No. 66 Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62 was issued. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. This standard will be implemented during fiscal year June 30, 2013.

In June 2012, GASB Statement No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statements No. 25 was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The standard is expected to have no effect on the Association in upcoming years.

In June 2012, GASB Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statements No. 27 was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The Association will implement this standard during the fiscal year June 30, 2016.

In January 2013, GASB Statement No. 69 Government Combinations and Disposals of Government Operations was issued. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively. The Association is evaluating how this reporting standard will affect the Association.

In April 2013, GASB Statement No. 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees was issued. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. The Association is evaluating how this reporting standard will affect the Association.

SUPPLEMENTAL INFORMATION

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF DEPOSITS AND TEMPORARY INVESTMENTS
Years Ended June 30, 2013 and 2012

| Name of Depository | Account Type | Bank Balance June 30, 2013 | Net Reconciling Items | Reconciled Balance June 30, 2013 |
|------------------------|---------------------|----------------------------------|-----------------------------|--|
| Western Commerce Bank | Interest Checking | \$ 612,728 | \$ 121,450 | 734,178 |
| Western Commerce Bank | Money Market | 300,822 | (17,612) | 283,210 |
| Carlsbad National Bank | Commercial Checking | 907 | - | 907 |
| Carlsbad National Bank | Commercial Checking | 1,848 | - | 1,848 |
| | | <u>\$ 916,305</u> | <u>\$ 103,838</u> | <u>\$ 1,020,143</u> |

Reconciliation to Basic Financial Statements

Total Association Cash

Cash Deposits
Petty Cash

\$ 1,020,143
300

Total Cash \$ 1,020,443

| Name of Depository | Account Type | Bank Balance June 30, 2012 | Net Reconciling Items | Reconciled Balance June 30, 2012 |
|-----------------------|-------------------|----------------------------------|-----------------------------|--|
| Western Commerce Bank | Interest Checking | \$ 559,261 | \$ 18,958 | 575,488 |
| Western Commerce Bank | Money Market | 231,119 | (18,498) | 242,031 |
| | | <u>\$ 790,380</u> | <u>\$ 460</u> | <u>\$ 817,519</u> |

Reconciliation to Basic Financial Statements

Total Association Cash

Cash Deposits
Petty Cash

\$ 817,519
300

Total Cash \$ 817,819

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
June 30, 2013 and 2012

| Name of Depository | Pledged Collateral | CUSIP | Name and Location of Custodian | Fair Market Value June 30, 2013 |
|-----------------------|---|-----------|--------------------------------------|------------------------------------|
| Western Commerce Bank | GNMA #8792 Matures 1/20/2019 | 36202KXV2 | Federal Home Loan Bank Dallas, TX | \$ 45,479 |
| Western Commerce Bank | GNMA #080185 Matures 4/20/2028 | 36225CF35 | Federal Home Loan Bank Dallas, TX | 45,108 |
| Western Commerce Bank | SBAP Series 2009-20F Matures 6/01/2029 | 83162CSP9 | Federal Home Loan Bank Dallas, TX | <u>365,770</u> |
| | | | | <u>\$ 456,357</u> |

| Name of Depository | Pledged Collateral | CUSIP | Name and Location of Custodian | Fair Market Value June 30, 2012 |
|-----------------------|------------------------------------|-----------|--------------------------------------|------------------------------------|
| Western Commerce Bank | FHLMC #420166 Matures 1/1/2020 | 31346AFF7 | Federal Home Loan Bank Dallas, TX | \$ 41,959 |
| Western Commerce Bank | GNMA #8263 Matures 9/20/2017 | 36202KFC4 | Federal Home Loan Bank Dallas, TX | 33,033 |
| Western Commerce Bank | GNMA #8453 Matures 1/20/2019 | 36202KMA0 | Federal Home Loan Bank Dallas, TX | 41,745 |
| Western Commerce Bank | FHLMC #780771 Matures 8/1/2033 | 31342A2C2 | Federal Home Loan Bank Dallas, TX | 39,778 |
| Western Commerce Bank | GNMA #8792 Matures 1/20/2019 | 36202KXV2 | Federal Home Loan Bank Dallas, TX | 50,174 |
| Western Commerce Bank | GNMA #080136 Matures 11/20/2027 | | Federal Home Loan Bank Dallas, TX | 19,756 |
| Western Commerce Bank | FHLMC #C00553 Matures 9/1/2027 | | Federal Home Loan Bank Dallas, TX | 33,885 |
| Western Commerce Bank | FHLMC #420212 Matures 8/1/2031 | | Federal Home Loan Bank Dallas, TX | 18,234 |
| Western Commerce Bank | FNMA #013204 Matures 6/2/2025 | | Federal Home Loan Bank Dallas, TX | 25,656 |
| Western Commerce Bank | GNMA #080154 Matures 1/20/2028 | | Federal Home Loan Bank Dallas, TX | 38,678 |
| Western Commerce Bank | GNMA #80185 Matures 4/20/2028 | 36225CF35 | Federal Home Loan Bank Dallas, TX | <u>50,641</u> |
| | | | | <u>\$ 393,539</u> |

COMPLIANCE

JW ANDERSON & ASSOCIATES, PC
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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 basic financial statements of the business-type activities of Otis Mutual Domestic Water Consumers & Sewage Works Association as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated June 27, 2014. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Otis Mutual Domestic Water Consumers & Sewage Works Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Otis Mutual Domestic Water Consumers & Sewage Works Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Otis Mutual Domestic Water Consumers & Sewage Works Association's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-4, 2013-5 and 2013-6 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-1, 2013-7 and 2013-8 to be significant deficiencies.

Compliance and Other Matters

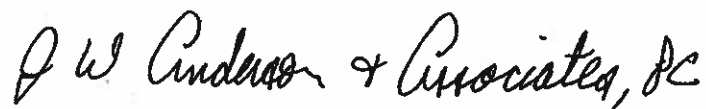
As part of obtaining reasonable assurance about whether Otis Mutual Domestic Water Consumers & Sewage Works Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978 which are described in the accompanying schedule of findings and responses as 2013-2 and 2013-3.

Entity's Responses to Findings

Otis Mutual Domestic Water Consumers & Sewage Works Association's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Otis Mutual Domestic Water Consumers & Sewage Works Association's response and, accordingly, we express no opinion on it.

Restriction on Use

The purpose of this report is 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. This 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. Accordingly, this report is not suitable for any other purpose.



JW Anderson & Associates, PC
Certified Public Accountants
Lubbock, Texas
June 27, 2014

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2013 and 2012

Prior Year

2012-1 Segregation of Duties - Repeated

Current Year

2012-1 Segregation of Duties – Significant Deficiency

CONDITION - The Association has a limited 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.

2013-2 Late Submission of Audit Report – Compliance

CONDITION - The audit report for the fiscal year ended June 30, 2013 was not submitted by the New Mexico State Audit Rule deadline.

CRITERIA - New Mexico State Auditor Rule 2.2.2.9A (1) requires audit reports for the Association to be submitted by December 1st following the end of the fiscal year.

CAUSE - The items needed to complete the audit were not available until after the deadline.

EFFECT - The Association is out of compliance with New Mexico State Auditor Rule 2.2.2.9A (1).

RECOMMENDATION - We recommend the Association be proactive in the audit and audit report preparation by maintaining communications with the auditor and the State Auditor regarding progress of the audit and any issues faced by the Association.

MANAGEMENT'S RESPONSE - Association management will work to submit the report by the deadline for upcoming fiscal years and all such submissions will be sent with a return receipt request.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2013 and 2012

2013-3 - Submission of Audit Contract and Recommendation – Compliance

CONDITION - Per 2.2.2.8(G)(6)(c) NMAC Audit Rule, the Association did not meet the deadline for submission of the audit contract and recommendation by the deadline for the fiscal year ending 2013.

CRITERIA - 2.2.2.8(G)(6)(c) NMAC Audit Rule requires that the audit contract and recommendation be submitted to the Office of the State Auditor by May 1st.

CAUSE - The audit contract and recommendation was prepared on June 5, 2013 by client personnel.

EFFECT - Preparation of the audit contract and recommendation on Jun 5, 2013 caused the submission to arrive late to the Office of the State Auditor.

RECOMMENDATION - We recommend the Association management personnel prepare the audit contract and recommendation in April of each fiscal year to allow enough time to deliver to the Office of the State Auditor by the due date of May 1st.

MANAGEMENT'S RESPONSE - The Association's management will prepare and submit the audit contract and recommendation by the deadline for upcoming fiscal years and all such submissions will be sent with a return receipt request.

2013-4 - Payroll Reporting and Reconciliation – Material Weakness

CONDITION - During the fiscal year, the Association did not properly reconcile the payroll subsidiary to the general ledger and to the payroll reports file with the state and federal government.

CRITERIA - The payroll subsidiary ledger should agree to the general ledger and reconcile to the quarterly payroll reports.

CAUSE - The quarterly payroll reports did not reconcile to the payroll expense in the general ledger. In addition, the subsidiary ledger for payroll was not properly computing the payroll taxes for a portion of the fiscal year..

EFFECT - Payroll reports could not be reconciled to the general ledger.

RECOMMENDATION - We recommend the Association management personnel review the payroll subsidiary ledger and ascertain that the subsidiary ledger agrees to the general ledger. In addition, the Association's management should make sure the quarterly reports filed with the state and federal governments can be reconciled to the general ledger.

MANAGEMENT'S RESPONSE - The Association's management has switched software for payroll and general ledger purposes and does not feel that it will be a problem in the future.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2013 and 2012

2013-5 - Capital Asset Recording and Reconciliation – Material Weakness

CONDITION - At the present time, there is no procedure for reconciling detailed fixed asset records to the general ledger on a regular basis. The lack of such a procedure has led to inaccurate reporting of fixed asset cost and depreciation expense in monthly financial statements.

CRITERIA - The capital asset detail should agree to the general ledger and reconcile at the end of each period.

CAUSE - There was no reconciliation of capital asset activity for the fiscal year.

EFFECT - The lack of such a procedure has led to inaccurate reporting of fixed asset cost and depreciation expense in monthly financial statements.

RECOMMENDATION - To prevent the need for major adjustments to the capital asset accounts at the end of each year, we suggest that the general ledger fixed asset accounts be reconciled to the detailed records on a monthly basis.

MANAGEMENT'S RESPONSE - The Association will work to set up capital asset detail subsidiary to reconcile to the general ledger in the future.

2013-6 - Accounts and Grants Receivable Reconciliation – Material Weakness

CONDITION - At the present time, there is no procedure for reconciling the accounts receivable and grants receivable subsidiary ledger to the general ledger on a regular basis. The lack of such a procedure has led to inaccurate reporting of receivables and revenues in monthly financial statements.

CRITERIA - This practice serves as a check on the accuracy of the record-keeping process and maintains the accounts receivable on a more timely and accurate basis.

CAUSE - There was no reconciliation of accounts receivable and revenue for the fiscal year.

EFFECT - The lack of such a procedure has led to inaccurate reporting of accounts receivable and revenue in monthly financial statements.

RECOMMENDATION - To prevent the need for major adjustments to the accounts receivable and revenue balances, the subsidiary ledger be reconciled to the detailed records on a monthly basis. Any differences should be investigated and resolved as soon as possible.

MANAGEMENT'S RESPONSE - The Association will work to set up procedures to reconcile to the general ledger in the future.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2013 and 2012

2013-7 - Reconciling Items – Significant Deficiency

CONDITION - During our test of the Association's bank reconciliations, we noted a number of reconciling items which varied in age up to three years old. We also noted an abnormal amount of reconciling items and a number of duplicate items in the general ledger.

CRITERIA - Reconciling items should be researched promptly so that corrective action may be taken, where necessary, to dispose of them. This process will substantially increase control over cash. Controls over disbursements should exist to prevent duplicate items.

CAUSE - There were many reconciling items and numerous duplicates in the general ledger for the fiscal year.

EFFECT - The lack of such a procedure has led to inaccurate reporting of bank balances and expenses in monthly financial statements.

RECOMMENDATION - We suggest that bank accounts be reconciled and all differences between book and bank balances be investigated on a timely basis by appropriate accounting personnel so that errors and adjustment can be quickly identified and corrected.

MANAGEMENT'S RESPONSE - The Association's management will work proactively to investigate older outstanding items on the bank reconciliation.

2013-8 - Accounts Payable Subsidiary Ledger and Reconciliation – Significant Deficiency

CONDITION - Our testing in the area of accounts payable disclosed that monthly reconciliations between the balance in the general ledger and the open invoices are not being performed.

CRITERIA - Unpaid invoices should be entered as accounts payable as soon as they are received from the vendor. In addition, payment should not be made until the invoices are approved by the appropriate personnel.

CAUSE - There was no reconciliation of accounts payable to the general ledger during the fiscal year.

EFFECT - The lack of such a procedure has led to inaccurate reporting of accounts payable and expenses in monthly financial statements. The lack of this control feature allows for differences to occur and accumulate over a period of time. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in a lengthy reconciliation process.

RECOMMENDATION - To maintain proper control over accounts payable, we suggest that the open invoice file be reconciled with the balance in the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts payable balance supported by the subsidiary system.

MANAGEMENT'S RESPONSE - The Association will work to set up an accounts payable subsidiary and reconcile to the general ledger in the future.

OTIS MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
June 30, 2013 and 2012

The contents of this report were discussed with the Otis Mutual Domestic Water Consumers and Sewage Works Association representatives on June 27, 2014. The following individuals were available for the conference:

Otis MDWC & SWA

Lori Whitaker, Office Manager
James Fry, Board Member
Danny Bass, Board Member

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.