

**OTIS  
MUTUAL DOMESTIC WATER CONSUMERS  
AND SEWAGE WORKS ASSOCIATION  
AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
JUNE 30, 2015**

## **INTRODUCTORY SECTION**

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
TABLE OF CONTENTS  
JUNE 30, 2015**

	<b>Page Number</b>
<b>INTRODUCTORY SECTION</b>	
Table of Contents .....	i
Official Roster.....	ii
 <b>FINANCIAL SECTION</b>	
Independent Auditor’s Report .....	1
<b><u>Financial Statements:</u></b>	
Statement of Net Position .....	3
Statement of Revenues, Expenses and Changes in Net Position.....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	8
 <b>SUPPLEMENTAL INFORMATION</b>	
Schedule of Expenditures of Federal Awards .....	22
Schedule of Vendor Expenditures over \$60,000 .....	23
 <b>INTERNAL CONTROL AND COMPLIANCE SECTION</b>	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	24
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 .....	26
Schedule of Findings and Questioned Costs .....	28

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
OFFICIAL ROSTER  
JUNE 30, 2015**

**BOARD OF DIRECTORS**

<b>Name</b>	<b>Title</b>
Jim Wilcox	President
Danny Bass	Vice-President
Jim Fry	Secretary-Treasurer
Rowdy Schenck	Director
Henry Vasquez	Director

**ASSOCIATION OFFICIALS**

<b>Name</b>	<b>Title</b>
Cutter Rogers	General Manager
Lori Whitaker	Office Manager

## **FINANCIAL SECTION**



**SCOTT NORTHAM, CPA, PC**  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Timothy Keller, New Mexico State Auditor, and  
Board of Directors of  
Otis Mutual Domestic Water Consumers  
and Sewage Works Association  
Otis, New Mexico

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities for Otis Mutual Domestic Water Consumers and Sewage Works Association (Association) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the Association's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Notes G and H to the financial statements, in 2015 the Association adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the schedule of the Association's proportionate share of the net pension liability and the schedule of the Association's contributions in Note G (pages 16-20) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the Association's proportionate share of the net pension liability and the schedule of the Association's contributions, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has elected to omit the MD&A which is required to be presented to supplement the basic financial statements by accounting principles generally accepted in the United States of America. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

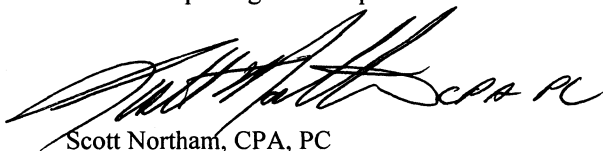
Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Association's basic financial statements. The Schedule of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Vendor Expenditures over \$60,000 as required by *Section 2.2.2.NMAC*, are presented for purposes of additional analysis as supplemental information as listed in the table of contents and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards presented as supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules presented as supplemental information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Vendor Expenditures over \$60,000 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.



Scott Northam, CPA, PC  
Ruidoso, New Mexico  
November 23, 2015

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

**ASSETS AND DEFERRED OUTFLOWS**

**CURRENT ASSETS**

Cash and Cash Equivalents	
Unrestricted	\$ 581,617
Restricted - USDA RUS	74,407
Accounts Receivable	108,868
Payroll Taxes Receivable	14,834
Inventory	<u>206,410</u>
<b>TOTAL CURRENT ASSETS</b>	<u><b>986,136</b></u>

**NONCURRENT ASSETS**

Cash and Cash Equivalents	
Customer Deposits	77,090
Earnest Funds Held in Escrow	500,000
Capital Assets, Net	<u>3,819,871</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u><b>4,396,961</b></u>

<b>TOTAL ASSETS</b>	<u><b>5,383,097</b></u>
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**DEFERRED OUTFLOWS**

Deferred Outflows - PERA	<u>25,310</u>
<b>TOTAL DEFERRED OUTFLOWS</b>	<u><b>25,310</b></u>

<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u><u><b>\$ 5,408,407</b></u></u>
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**LIABILITIES, DEFERRED INFLOWS AND NET POSITION**

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable	\$ 36,102
Accrued Wages	2,352
Accrued Payroll Tax Liabilities	24,644
Sales Tax Payable	22,568
Accrued Vacation, Current Portion	8,185
Long-Term Debt, Current Portion	18,320
	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	<b>112,171</b>

**NONCURRENT LIABILITIES**

Customer Deposits	77,090
Accrued Vacation, Net of Current Portion	13,809
Long-Term Debt, Net of Current Portion	704,261
Long-Term PERA Payable	240,273
	<hr/>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,035,433</b>
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>1,147,604</b>

**DEFERRED INFLOWS**

Deferred Inflows - PERA	94,164
	<hr/>
<b>TOTAL DEFERRED INFLOWS</b>	<b>94,164</b>

**NET POSITION**

Net Investment in Capital Assets	3,097,290
Restricted	574,407
Unrestricted	494,942
	<hr/>
<b>TOTAL NET POSITION</b>	<b>4,166,639</b>
	<hr/>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 5,408,407</b>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>OPERATING REVENUES</b>	
Water Sales and Charges for Service	\$ 1,062,830
Late Charges and Service Fees	82,595
Rental and Lease Income	2,392
Memberships	10,400
<b>Total Operating Revenues</b>	1,158,217
<b>OPERATING EXPENSES</b>	
Wages and Salaries	322,273
Payroll Taxes	25,271
Retirement	13,839
Other Employee Benefits	130,603
Advertising	1,220
Auto Expense	45,955
Travel	6,496
Training and Education	1,679
Dues and Subscriptions	3,549
Licenses, Fees, and Permits	2,301
Equipment Rental and Supplies	246,872
Insurance	20,921
Office and Administrative Expense	14,255
Postage and Shipping	8,338
Bank and Credit Card Fees	5,064
Professional Fees and Contracted Services	84,317
Repairs and Maintenance	200,763
Property and Other Taxes	1,020
Utilities	80,967
Water Purchases	16,644
Depreciation	94,698
<b>Total Operating Expenses</b>	1,327,045
<b>Operating Loss</b>	(168,828)
<b>NON-OPERATING REVENUE (EXPENSE)</b>	
Interest Income	921
Interest Expense	(517)
<b>Total Non-operating Income (Expense)</b>	404
<b>Loss Before Capital Grants</b>	(168,424)
<b>CAPITAL GRANTS</b>	
Capital Grants	
Federal	765,766
Other	10,470
<b>Total Capital Grants</b>	776,236
<b>CHANGE IN NET POSITION</b>	607,812
<b>NET POSITION, BEGINNING OF YEAR</b>	3,956,234
Prior Period Adjustment	(397,407)
<b>NET POSITION, END OF YEAR</b>	\$ 4,166,639

The accompanying notes are an integral part of these financial statements.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers and Users	\$ 1,196,975
Payments to and on Behalf of Employees	(510,275)
Payments to Suppliers and Contractors	(625,893)
Other Receipts, Net	<u>3,405</u>
Net Cash Provided by Operating Activities	<u>64,212</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	921
Capitalized Interest	(31,973)
Capital Asset Purchases	<u>(1,100,429)</u>
Net Cash Used by Investing Activities	<u>(1,131,481)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Delinquent Payroll Taxes Paid	<u>(91,643)</u>
Net Cash Used by Non-Capital Financing Activities	<u>(91,643)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Capital Grants	791,112
Proceeds from Notes Payable	402,483
Principal Payments on Notes Payable	(142,411)
Interest Expense	<u>(517)</u>
Net Cash Provided by Capital Financing Activities	<u>1,050,667</u>
<b>NET CHANGE IN CASH</b>	<u>(108,245)</u>
<b>CASH AT BEGINNING OF YEAR</b>	<u>841,359</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 733,114</u></u>

**Reconciliation of Operating Income to Net Cash Provided****by Operating Activities**

Operating Loss \$ (168,828)

**Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities**

Depreciation 94,698

**Change in**

Deferred Inflows 13,839

Deferred Outflows (25,310)

Accounts Receivable 29,394

Grants Receivable 14,876

Payroll Taxes Receivable (14,834)

Prepaid Insurance 9,139

Inventory 86,993

Accounts Payable 18,336

Accrued Wages (916)

Accrued Payroll Tax Liabilities (3,246)

Sales Tax Payable 6,437

Accrued Vacation 707

Customer Deposits 2,927

Cash Provided by Operating Activities \$ 64,212

**Reconciliation to Statement of Net Position**

Unrestricted \$ 581,617

Restricted - USDA RUS 74,407

Customer Deposits 77,090

Total Cash and Cash Equivalents \$ 733,114

**Supplemental Cash Flow Disclosures**

Construction in Progress Financed by Debt \$ 343,056

Interest Capitalized 31,973

Interest Expensed 517

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

**Organization** - Otis Mutual Domestic Water Consumers and Sewage Works Association (Association) is a Mutual Domestic Water 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 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. The Association was initially incorporated as a co-operative association. The Board of Directors changed the organization type from a not-for-profit cooperative to a non-profit special-purpose government association under the Sanitary Projects Act (SPA), NMSA 3-29-1 through 3-29-20, effective July 1, 2005.

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. Another AG opinion (68-38) states Mutual Domestic Water Associations (MDWAs) under the SPA Act are created for "one purpose only, and that is to establish and maintain a water system." Further it concluded MDWAs are not municipal corporations. HB 297, enacted during the 2009 legislative session, exempts MDWAs 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 MDWAs 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 non-profit special-purpose governmental entity in accordance with Governmental Accounting Standards Board Statement No. 14. The Association is not a component unit or subdivision 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, and it is not required to file not-for-profit tax returns,

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 MDWAs have officially been determined to be governmental nonprofit organizations, their financial statements follow the governmental format as described in GASB 34 with the fiscal year ending June 30, 2007.

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. Bona fide occupants and residents within and in the vicinity of the community of Otis, New Mexico may apply to become members by paying the \$5,200 non-refundable membership fee and be approved by the Board of Directors. The rights, privileges and obligations of the members are equal. No capital stock is authorized nor issued.

**Basis of Presentation** - The Association's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Association has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The accounts of the Association are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Association's assets, liabilities, net position, deferred inflows and deferred outflows of resources, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Association is determined by its measurement focus. The transactions of the Association are accounted for on a flow of economic resources measurement focus. With this measurement focus, all net position (i.e., total assets and deferred outflows less total liabilities and deferred inflows) are segregated into net investment in capital assets, restricted, and unrestricted components. 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.

**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.

**Restricted Cash** - The Association restricts a compensating amount of cash equal to the amount of the customer deposits held on hand. These reserves are not required but are separated by management.

A separate Construction Account was established as required by the United States Department of Agriculture (USDA) into which the proceeds of the loan and grant proceeds from the USDA-RUS are deposited. Withdrawals from the Construction Account were and shall be made only on checks signed by the manager of the Association as authorized by the Board from time to time, and with prior concurrence of the Government. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed.

**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.

**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.

**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.

**Allowance for Doubtful Accounts** - It is the opinion of management that no allowance for doubtful accounts was necessary as of June 30, 2015 because services will be disconnected should an account become delinquent.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**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. The customer deposits held by the Association also help minimize the credit risk.

**Inventory** - Inventory includes water pipe, electronic water meter, pumps 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 routine repairs and 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. Renovations to the buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Interest paid on loans for construction purposes is capitalized until the asset becomes available for use and amortized over the life of the related asset. Land owned by the Association is always capitalized. Water rights considered to have an indefinite life are not subject to amortization under GASB No. 51.

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

**Analysis of Impairments** - Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based on comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based on the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2015.

**Customer Deposits** - The Association requires a deposit to establish service for the customer. Deposits are not considered revenue for the Association unless or until the customer closes their account, at which time any remaining balance due on the account is deducted from the deposit and the customer is refunded the excess.

**Net Position** - Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on the use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Operating and Non-operating Revenues** - Revenues are classified as operating or non-operating according to the following criteria:

*Operating revenue* - include activities which have the characteristic of exchange transactions, such as charges for services and fees, net of any allowance for uncollectible amounts.

*Non-operating revenues* - include activities which have the characteristics of non-exchange transactions, such as capital grants and investment income.

**Expenses** - Expenses are classified as operating or non-operating according to the following criteria:

*Operating expenses* - include activities that have the characteristics of an exchange transaction such as employee salaries, benefits, and related expenses; maintenance, operations and contractual services; materials and supplies; office expenses; and depreciation expenses related to Association capital assets.

*Non-operating expenses* - include activities that have the characteristics of non-exchange transactions such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 - *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34.

**Advertising** - Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2015 were approximately \$1,220.

**Income Taxes** - The Association operates as a non-profit special-purpose governmental 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 Compliance** - As a non-profit special-purpose governmental organization, the Association's annual budget is not required 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.

**Compensated Absences** - The Association permits employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave may be accumulated up to 80 hours. Upon termination, the Association will compensate an employee for unused accrued vacation leave up to a maximum of 80 hours. Accrued sick leave may be accrued and carried over, however sick leave is not paid out upon termination.

**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.

**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 available to be issued. Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued.



**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE B - CASH AND CASH EQUIVALENTS**

At June 30, 2015, the Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking and money market accounts. Checking accounts which are required for debt service or for grant purposes are prohibited from accruing interest. Following is a schedule as of June 30, 2015, of the cash and cash equivalents.

	<b>Bank Balance June 30, 2015</b>	<b>Outstanding Deposits</b>	<b>Outstanding Checks</b>	<b>Book Balance June 30, 2015</b>
<b>Western Commerce Bank</b>				
Checking Account	\$ 456,454	\$ 3,949	\$ (45,016)	\$ 415,387
Money Market Account	242,273	-	-	242,273
<b>Carlsbad National Bank</b>				
Debt Service Reserve	74,197	-	-	74,197
USDA Construction Account	210	-	-	210
Short Lived Assets Account	<u>747</u>	<u>-</u>	<u>-</u>	<u>747</u>
Total Cash in Banks	<u>\$ 773,881</u>	<u>\$ 3,949</u>	<u>\$ (45,016)</u>	732,814
Cash on Hand				<u>300</u>
Total Cash on Books				<u>\$ 733,114</u>

As Reported in the Financial Statements:

Restricted Cash			
USDA-RUS account		\$ 74,407	
Customer Deposits		<u>77,090</u>	\$ 151,497
Unrestricted Cash			<u>581,617</u>
			<u>\$ 733,114</u>

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

	<b>Western Commerce Bank</b>	<b>Carlsbad National Bank</b>	<b>Totals</b>
<b>Deposits:</b>	\$ 698,727	\$ 75,154	\$ 773,881
Less FDIC Coverage	<u>(250,000)</u>	<u>(75,154)</u>	<u>(325,154)</u>
Uninsured Funds	448,727	-	448,727
Pledged Collateral Held by the Pledging Bank's Trust Department or Agent, Not in the Association's Name	<u>492,425</u>	<u>-</u>	<u>492,425</u>
Uninsured and Uncollateralized	<u>\$ (43,698)</u>	<u>\$ -</u>	<u>\$ (43,698)</u>
50% Pledged Collateral Requirement per Statute	\$ 224,364	\$ -	\$ 224,364
Pledged Collateral	<u>492,425</u>	<u>-</u>	<u>492,425</u>
(Over) Under Collateralized	<u>\$ (268,061)</u>	<u>\$ -</u>	<u>\$ (268,061)</u>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE B - CASH AND CASH EQUIVALENTS (Cont.)**

**Custodial Credit Risk - Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to them. The Association does not have a deposit policy for custodial credit risk. As of June 30, 2015, \$448,727 of the Association's bank balance of \$773,881 was exposed to custodial credit risk before applying the pledged collateral.

<b>Western National Bank Pledged Collateral*:</b>	<b>Maturity</b>	<b>Market Value</b>	<b>Par Value</b>
GNMA # 80185	4/20/2028	\$ 32,818	\$ 31,477
GNMA #008792	1/20/2026	36,762	35,442
SBAP Series 2009-20F	6/01/2029	290,681	262,676
FNMA #888129	2/01/2037	67,872	60,183
FHLMC #C00553	9/01/2027	17,590	14,937
FHLMC #780771	8/01/2033	11,181	10,544
FHLMC #420166	1/01/2020	13,934	13,671
FHLMC #420168	12/02/2029	<u>21,587</u>	<u>19,919</u>
Total Collateral Pledged		<u>\$ 492,425</u>	<u>\$ 448,849</u>

\*All securities are held by Federal Home Loan Bank, Dallas, Texas

**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 Eddy County. Depreciation expense for the fiscal year was approximately \$94,698.

Capital asset activity for the year ended June 30, 2015 was as follows:

	<b>Balance June 30, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2015</b>
<b>Non-depreciable Capital Assets</b>				
Construction in Progress	\$ 140,425	\$ 1,475,458	\$ -	\$ 1,615,883
Land and Water Rights	<u>1,429,461</u>	<u>-</u>	<u>-</u>	<u>1,429,461</u>
Total Non-depreciable Capital Assets	1,569,886	1,475,458	-	3,045,344
<b>Depreciable Capital Assets</b>				
Water System Lines	1,633,201	-	-	1,633,201
Water Wells and Tanks	1,160,045	-	-	1,160,045
Tools and Equipment	610,164	-	-	610,164
Building and Well House	<u>150,938</u>	<u>-</u>	<u>-</u>	<u>150,938</u>
Total Depreciable Capital Assets	<u>3,554,348</u>	<u>-</u>	<u>-</u>	<u>3,554,348</u>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE C - CAPITAL ASSETS (Cont.)**

	<b>Balance</b> <b>June 30, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b> <b>June 30, 2015</b>
<b>Less Accumulated Depreciation</b>				
Water System Lines	(1,326,743)	(20,487)	-	(1,347,230)
Water Wells and Tanks	(737,367)	(38,211)	-	(775,578)
Tools and Equipment	(502,174)	(30,628)	-	(532,802)
Building and Well House	<u>(118,839)</u>	<u>(5,372)</u>	-	<u>(124,211)</u>
Total Accumulated Depreciation	<u>(2,685,123)</u>	<u>(94,698)</u>	-	<u>(2,779,821)</u>
Total Depreciable Capital Assets, Net	<u>869,225</u>	<u>(94,698)</u>	-	<u>774,527</u>
Capital Assets, Net	<u>\$ 2,439,111</u>	<u>\$ 1,380,760</u>	<u>\$ -</u>	<u>\$ 3,819,871</u>

**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 a long-term liability. 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, 2015 is detailed below.

	<b>Balance</b> <b>June 30, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b> <b>June 30, 2015</b>	<b>Payable</b> <b>Within One</b> <b>Year</b>
Compensated Absences	<u>\$ 21,287</u>	<u>\$ 8,185</u>	<u>\$ (7,478)</u>	<u>\$ 21,994</u>	<u>\$ 8,185</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, 2015 was approximately \$12,375.

**NOTE F - LONG-TERM DEBT**

The Association has the following long-term debt obligations as of June 30, 2015:

**USDA/RUS 91-02** - The Association entered into an agreement with the United States Department of Agriculture's Rural Utilities Services on July 31, 2012, for water system improvements, which includes the acquisition of land right-of-way easements, engineering and design, water distribution system improvements, and equipment. The original amount of the note was \$397,000, bearing 3.50% interest. Principal and interest payments of \$1,541 are due monthly, with the note maturing in July, 2054. The Association has pledged as collateral all gross receipts, income, accounts, deposit accounts, goods, supplies, inventory, equipment, the water works and distribution system, and all physical facilities of the Association. Proceeds, revenues, water charges, assessments, contract rights, accounts, general intangibles, and all other income shall be pledged to the repayment of the principal and interest.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE F - LONG-TERM DEBT (Cont.)**

**NMED/RIP 2012-03** - The Association entered into an agreement with the New Mexico Environment Department on February 28, 2012, for improvements to the water distribution system. The original amount of the note was approximately \$313,875, bearing 3.00% interest. Twenty principal and interest payments of approximately \$21,097 are due annually, with the note maturing in March, 2034. Net revenues from the water utility system have been pledged for the payment of the loan.

**CIF-2772** - The Association entered into an agreement with the New Mexico Finance Authority on November 15, 2013 for construction of line extensions and additional capacity for the Association. The original amount of the note was \$29,181 and is non-interest bearing. Principal payments of \$1,493 on the note are due annually on June 1. The note matures June, 2033. The Association has pledged net revenues from the water utility system to the payment of the loan.

**RCAC 0775-OMDWC-01** - The Association entered into an agreement with the New Mexico Environment Department Construction Programs Bureau Rural Infrastructure Program through the Rural Community Assistance Corporation. The note balance and accrued interest of approximately \$124,936 and \$12,176, respectively, were re-financed through the USDA-RUS loan in October, 2014.

The Association paid approximately \$32,490 in interest expense, of which \$31,973 was attributed to long-term obligations and capitalized during the construction of the infrastructure improvements. The remaining \$517 of interest expense was derived from minor accounts and was expensed when incurred.

Long-term debt activity for the year ended June 30, 2015 was as follows:

Obligation	Balance June 30, 2014	Non-Cash Increases	Increases	Decreases	Balance June 30, 2015	Due Within One Year	Capitalized Interest
USDA-RUS 91-02	\$ -	\$ -	\$ 397,000	\$ (3,488)	\$ 393,512	\$ 4,795	\$ 10,381
NMED/RIP 2012-03	-	313,875	-	(11,681)	302,194	12,032	9,416
NMFA CIF-2772	-	29,181	-	(2,306)	26,875	1,493	-
RCAC 0775-OMDWC-01	<u>119,453</u>	-	<u>5,483</u>	<u>(124,936)</u>	-	-	<u>12,176</u>
Total Long-term Debt	<u>\$ 119,453</u>	<u>\$ 343,056</u>	<u>\$ 402,483</u>	<u>\$ (142,411)</u>	<u>\$ 722,581</u>	<u>\$ 18,320</u>	<u>\$ 31,973</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 18,320	\$ 22,762	\$ 41,082
2017	18,852	22,230	41,082
2018	19,400	21,682	41,082
2019	19,966	21,116	41,082
2020	20,550	20,532	41,082
2021-2025	112,177	93,235	205,412
2026-2030	129,826	75,586	205,412
2031-2035	126,388	54,942	181,330
2036-2040	51,791	40,669	92,460
2041-2045	61,680	30,780	92,460
2046-2050	73,458	19,002	92,460
2051-2055	<u>70,173</u>	<u>5,229</u>	<u>75,402</u>
<b>Totals</b>	<u>\$ 722,581</u>	<u>\$ 427,765</u>	<u>\$ 1,150,346</u>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE G - PERA PENSION PLAN**

Compliant with the requirements of GASB Statement No. 68- *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015.

The Association is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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

**Summary of Significant Accounting Policies**

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan**

**Plan description** - The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://osanm.org/> using the Audit Report Search function for agency 366.

**Benefits provided** - For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2014 available at the following website URL: [http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf).

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE G - PERA PENSION PLAN (Cont.)**

**Contributions** - The contribution requirements of defined benefit plan members and the Association are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY14 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY14 annual audit report at [http://osanm.org/media/audits/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf). The PERA coverage option which applies to the Association is the Municipal Plan 2. Statutorily required contributions to the pension plan from the Association and employer paid member benefits that were “picked up” by the employer were \$25,310 for the year ended June 30, 2015.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2014.

The assets of the PERA Fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred inflows and outflows were performed separately for each of the membership groups. The Association’s proportion of the net pension liability for each membership group in which the Association participates is based on the percentage of the Association’s contributions to that membership group’s total employer contributions for the fiscal year ended June 30, 2014. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2014 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2014 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For the PERA Fund Municipal General Division, the Association reported a liability of \$240,273 for its proportionate share of the net pension liability at June 30, 2015. At June 30, 2014, the Association’s proportion was 0.0308 percent, which was unchanged from its proportion measured as of June 30, 2013, due to the insignificance of the difference. For the year ended June 30, 2015, the Association recognized PERA Fund Municipal General Division pension expense of \$13,839. At June 30, 2015, the Association reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE G - PERA PENSION PLAN (Cont.)**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Net Pension Liability</b>	<b>Net Pension Expense</b>
June 30, 2014 NPL	\$ -	\$ -	\$ 347,290	\$ -
Employer Contributions Subsequent to the Measurement Date	26,692	-	-	-
Changes in Assumptions	-	163	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	94,001	-	-
Net Change Between Current Year and Prior Year Contributions	(1,382)	-	-	-
Allocated Pension Expense	-	-	-	13,839
Calculated Change Between 2013 and 2014 NPL Allocation	<u>-</u>	<u>-</u>	<u>(107,017)</u>	<u>-</u>
<b>June 30, 2015 Totals</b>	<b><u>\$ 25,310</u></b>	<b><u>\$ 94,164</u></b>	<b><u>\$ 240,273</u></b>	<b><u>\$ 13,839</u></b>

The \$25,310 reported as deferred outflows of resources to PERA resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the fiscal year ended June 30, 2016.

The \$94,194 reported as deferred inflows of resources will be amortized and recognized as a reduction in annual pension expense as follows:

<b>Fiscal Year Ending June 30,</b>	
2016	\$ 23,541
2017	23,541
2018	23,541
2019	<u>23,541</u>
<b>Totals</b>	<b><u>\$ 94,164</u></b>

**Actuarial assumptions** - As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2013 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2014 actuarial valuation.

Actuarial Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	Solved for Based on Statutory Rates
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	7.75% Annual Rate, Net of Investment Expense
Payroll Growth	3.50% Annual Rate
Projected Salary Increases	3.50% to 14.25% Annual Rate
Included Inflation at	3.00% Annual Rate

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE G - PERA PENSION PLAN (Cont.)**

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS – Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	21.1%	5.00 %
International Equity	24.8	5.20
Private Equity	7.0	8.20
Core and Global Fixed Income	26.1	1.85
Fixed Income Plus Sectors	5.0	4.80
Real Estate	5.0	5.30
Real Assets	7.0	5.70
Absolute Return	4.0	4.15
<b>Totals</b>	<u>100.0%</u>	

**Discount rate** - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Association's proportionate share of the net pension liability to changes in the discount rate** - The following table show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Association's net pension liability in each PERA Fund Division in which the Association participates, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate Share of Net Pension Liability	<u>\$ 452,969</u>	<u>\$ 240,273</u>	<u>\$ 79,955</u>

Detailed information about the pension plan's fiduciary net position is available in the separately issued FY14 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.



**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE G - PERA PENSION PLAN (Cont.)**

The amounts presented below for trend analysis are determined as of June 30. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

**PERA MUNICIPAL GENERAL DIVISION PLAN SCHEDULE OF NPL PROPORTIONATE SHARE\***

Actuarial Valuation Date	Net Pension Liability (NPL)	Annual Covered Payroll	NPL as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
6/30/15	\$ 240,273	\$ 291,263	82.49%	81.29%

**PERA MUNICIPAL GENERAL DIVISION RETIREMENT PLAN COST TREND INFORMATION\***

Fiscal Year Ending June 30,	Contractually Required Contribution	Actual Contributions	Contribution Percentage	Remaining Contribution Obligation	Annual Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 24,436	\$ 24,436	100%	\$ -0-	\$ 291,263	8.36%

**Changes of benefit terms** - The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY14 audit available at the following website URL: [http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf).

**Changes of assumptions** - The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2014 report is available at the following website URL: [http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014\\_PERA\\_Valuation\\_Report\\_FINAL.pdf](http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014_PERA_Valuation_Report_FINAL.pdf).

The summary of Key Findings for the PERA Fund (on page 2 of the report) states “based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of \$30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio.” For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

**NOTE H - PRIOR PERIOD ADJUSTMENTS**

The Association implemented GASB No. 68 - *Accounting and Financial Reporting for Pensions* effective July 1, 2014 for the 2015 fiscal year. As a result, net position of the Association was decreased by approximately \$320,598, which is the net difference of the amount of net pension liability of \$347,290 allocated to the Association and the deferred outflow of resources of employer contributions subsequent to the measurement date of June 30, 2014 of \$26,692.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE H - PRIOR PERIOD ADJUSTMENTS (Cont.)**

The Association received delinquency notices from the Internal Revenue Service of unpaid payroll taxes for the 2013 and 2014 fiscal years. The payroll taxes should have been recorded as a liability in the previous fiscal years. These delinquent taxes were subsequently paid in the current fiscal year, totaling approximately \$91,643, of which \$14,834 were later identified as duplicate payments and recorded as a receivable. A prior period adjustment of \$76,809 was made to report the delinquent tax within the proper period.

A summary of the net position adjustments during the current fiscal year is as follows:

Net Position - June 30, 2014 - Originally Reported	\$ 3,956,234
GASB 68 Net Pension Liability Adjustment	(320,598)
Prior Year Payroll Tax Liability Adjustment	<u>(76,809)</u>
Total Adjustments	<u>(397,407)</u>
<b>Net Position - June 30, 2014 - As Adjusted</b>	<b><u>\$ 3,558,827</u></b>

**NOTE I – COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS**

**USDA-RUS \$1,029,000 FY2012 Colonias Grant** - The Association has approximately \$263,264 remaining on the \$1,029,000 USDA-RUS Colonias Grant awarded in fiscal year 2012. Grant expenditures of \$88,834 were made subsequent to year end, leaving approximately \$174,430 remaining to be spent on the system improvements.

**NMED 14-1625-STB Water System Phase 6 Improvements Grant** - The Association has received approval for a \$200,000 grant from the New Mexico Environment Department for engineering and professional services to design water distribution line connections to eliminate dead-end lines. Additional funding would be needed for construction. The grant funding has been delayed due to the Association’s prior year’s audited financial statements missing the submission deadline.

**Litigation** - The Association had been in joint ownership of an irrigation well and water rights with a local farming partnership since 2004. In May, 2014, the Association sued the farming partnership to pursue condemnation proceedings against the well and water rights, in order to incorporate the well into the existing wellfield for commercial consumer use rather than for agricultural irrigation (CV-2014-437 and CV-2014-986, consolidated). The farming partnership countersued, claiming breach of contract and fiduciary duty.

The Fifth Judicial District Court required the Association to deposit \$500,000 in earnest funds with the Court in June, 2014 as an estimate to the potential settlement of the case.

On September 8, 2015 the Association agreed to a settlement with the farming partnership by which the water rights and ownership of the disputed well and equipment will fully transfer to the Association for the agreed-upon sum of \$800,000. The agreement terminates the ownership agreement between the two parties, and the Association agrees to transfer seventy-five (75) acre-feet of commercial water rights to the farming partnership, all of which is subject to the approval of the New Mexico State Engineer. Should the New Mexico State Engineer deny the transfer of water rights ownership in any part of the agreement, the agreement is immediately terminated, the parties are restored to their respective positions prior to the settlement agreement and are bound to third-party mediation.

## **SUPPLEMENTAL INFORMATION**

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Program Title	Federal CFDA Number	Program or Grant Number	Program or Award Amount	Federal Expenditures	Remaining Expenditures
<b><u>US Department of Agriculture</u></b>					
RD Colonias Grant	10.770*	FY2012	\$ 1,029,000	\$ 765,766	\$ 263,234
Totals for Federal Assistance			<u>\$ 1,029,000</u>	<u>\$ 765,766</u>	<u>\$ 263,234</u>

\* Indicates major program

**Notes to Schedule of Expenditures of Federal Awards:**

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented on the accrual basis of accounting, which is the same basis used to prepare the accompanying financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the accompanying financial statements.

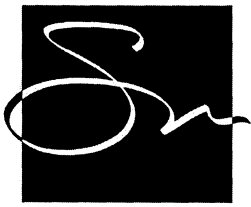
**2. Sub-recipients**

The Association did not provide any federal awards to sub-recipients during the year.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF VENDORS EXPENDITURES OVER \$60,000  
FOR THE YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Cumulative Expenditures in Fiscal Year</i>	<i>Name and Physical Address of Sole Source Vendor</i>	<i>In-State/ Out-of-State Vendor</i>	<i>Was the Vendor In-State and Chose Veteran's Preference?</i>	<i>Brief Description of the Scope of Work</i>
N/A	Sole Source	\$ 107,834.34	Ellis Welding and Fabrication, 108 S. 5th St., Carlsbad, NM 88220	In-State	N/A	Water tower and well repairs and maintenance
N/A	Sole Source	107,406.32	Blue Cross Blue Shield of New Mexico, 4373 Alexander Blvd NE, Albuquerque, NM 87107	In-State	N/A	Health insurance provider
N/A	Sole Source	82,965.03	Baker Utility, 4320 2nd St. NW, Albuquerque, NM 87107	In-State	N/A	Replacement water pipe and supplies
N/A	Sole Source	62,338.41	Martin, Dugan & Martin, 509 S. Pierce, Carlsbad, NM 88220	In-State	N/A	Legal services

**INTERNAL CONTROL AND COMPLIANCE SECTION**



**SCOTT NORTHAM, CPA, PC**  
Certified Public Accountants

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

Timothy Keller, New Mexico State Auditor, and  
Board of Directors of  
Otis Mutual Domestic Water Consumers  
and Sewage Works Association  
Otis, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Otis Mutual Domestic Water Consumers and Sewage Works Association (Association) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the Association's basic financial statements and have issued our report thereon dated November 23, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be either a material weakness or a significant deficiency.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2013-003 to be a material weakness.

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 deficiency described in the accompany schedule of findings and questioned costs as item 2012-001 to be a significant deficiency.

## Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Association's financial statements are free from 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 questioned costs as items 2013-002 and 2015-001.

## Association's Responses to Findings

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

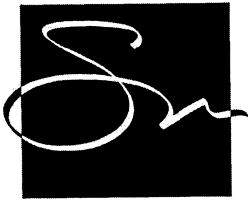
## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Scott Northam, CPA, PC  
Ruidoso, New Mexico  
November 23, 2015





**SCOTT NORTHAM, CPA, PC**  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Timothy Keller, New Mexico State Auditor, and  
Board of Directors of  
Otis Mutual Domestic Water Consumers  
and Sewage Works Association  
Otis, New Mexico

**Report on Compliance for Each Major Federal Program**

We have audited Otis Mutual Domestic Water Consumers and Sewage Works Association's (Association) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2015. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Otis Mutual Domestic Water Consumers and Sewage Works Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Otis Mutual Domestic Water Consumers and Sewage Works Association's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to this matters.

The Association's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

The Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Scott Northam, CPA, PC  
Ruidoso, New Mexico  
November 23, 2015

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

**SECTION I - SUMMARY RESULTS**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditor's report issued                           | Unmodified |
| 2. Internal control of financial reporting:                  |            |
| a. Material weaknesses identified?                           | Yes        |
| b. Significant deficiencies identified?                      | Yes        |
| c. Noncompliance material to the financial statements noted? | Yes        |

*Federal Awards:*

- |   |                        |
|---|------------------------|
| 1. Internal control over major programs:  |                        |
| a. Material weaknesses identified?  | No                     |
| b. Significant deficiencies identified?   | No                     |
| 2. Type of auditor's report issued on compliance for major programs   | Unmodified             |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | Yes                    |
| 4. Identification of major program  |                        |
| <b>CFDA</b>   | <b>Federal Program</b> |
| 10.770  | USDA-RD Colonias Grant |
| 5. Dollar threshold to distinguish between Type A and Type B Programs:  | \$300,000              |
| 6. Auditee qualified as low-risk auditee?   | No                     |

**SECTION II – FINANCIAL STATEMENT FINDINGS**

*PRIOR YEAR FINDINGS:*

- |          |  |                      |
|----------|--|----------------------|
| 2012-001 | Segregation of Duties                                | Repeated             |
| 2013-001 | Late Submission of Audit Report                      | Resolved             |
| 2013-002 | Late Submission of Audit Contract and Recommendation | Repeated             |
| 2013-003 | Payroll Reporting and Reconciliation                 | Revised and Repeated |
| 2014-001 | Documentation and Support                            | Resolved             |

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

*CURRENT YEAR FINDINGS:*

**2012-001 - 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 controls 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 organizations 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.

**MANAGEMENT RESPONSE** - The Association will continually monitor the internal control environment and adjust policies and procedures when conflicts in internal control arise. During the October 22, 2015 board meeting, the Board of Directors authorized the office manager to conduct a search for additional office personnel to resolve the finding. The resolution is expected to be resolved in December, 2015.

**2013-002 - Late 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 2015.

**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 of each year.

**CAUSE** - The audit contract and recommendation was prepared on August 25, 2015 by Association personnel and received by the State Auditor's Office on August 28, 2015 because the Association elected to change auditors.

**EFFECT** - Late preparation of the audit contract and recommendation 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.

**MANAGEMENT RESPONSE** - The Association's management waited until the fiscal year 2014 audited financial statements were approved by the Office of the State Auditor before selecting a new auditor for the 2015 fiscal year. The Association's Board of Directors plan to vote on recommending the external auditor for the 2016 fiscal year in March 2016 to provide adequate time to prepare and submit the audit contract and recommendation before the specified deadline.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

*CURRENT YEAR FINDINGS:*

**2013-003 - Payroll Taxes Reporting and Reconciliation (revised) - Material Weakness**

**CONDITION** - During the fiscal year, the Association received delinquent Internal Revenue Service tax notices for the fourth quarter of 2012, first, third and fourth quarter of 2013, and the second quarter of 2014, totaling approximately \$76,810 in delinquent taxes. In the process of remitting these delinquent federal taxes, the Association inadvertently submitted approximately \$14,834 in duplicate payments. During the audit, it was also noted the total amount of federal payroll taxes for the 2nd quarter of 2015 of approximately \$18,094 was paid subsequent to year end and New Mexico CRS-1 tax payments for February through June 2015 totaling approximately \$25,260 were paid after the fiscal year end.

**CRITERIA** – Federal payroll taxes are to be remitted within three to four days after the payroll date. New Mexico CRS-1 payments are due the 25th day of the following month.

**CAUSE** - A change in software in the previous fiscal year, coupled with a hardware failure in the current fiscal year and office staff on leave of absence allowed the Association to become delinquent in remitting the payroll taxes by the required due dates.

**EFFECT** - The Association is out of compliance with federal and state employment tax remittance regulations.

**RECOMMENDATION** - The Association should ensure that personnel are cross-trained in office duties so that other personnel can assume the responsibilities of another in the case of an extended absence.

**MANAGEMENT RESPONSE** - The office manager corrected the internal control weakness on October 22, 2015 and implemented new procedures and protocols to ensure that all tax obligations are met in the future.

**2015-001 – Grant Management - Compliance**

**CONDITION** - The Association employee coordinating the federal grants took an extended leave of absence due to a serious medical condition. Besides an employee from the engineering vendor working on the grant project, the Association did not have a sufficiently trained employee to assume the duties of the coordinator. As a result, grant files were behind in the necessary paperwork and the accounting records had not been updated for the USDA, NMED or NMFA long-term debt.

**CRITERIA** - Federal grants require constant monitoring to ensure compliance to the contract.

**CAUSE** - The Association relied on one employee to monitor and coordinate the grant without adequate support or assistance.

**EFFECT** - The Association could not properly determine the status of the grant or loan obligations without assistance from the engineering consultant.

**RECOMMENDATION** - The Association should designate the office manager to handle the grant coordinator duties as it appears the first employee may be on permanent medical leave. The Association should then hire additional office staff to relieve the office manager of some of the daily operational responsibilities.

**MANAGEMENT'S RESPONSE** - During the October 22, 2015 board meeting, the Board of Directors authorized the office manager to conduct a search for additional office personnel to allow the office manager to take over grant management responsibilities and to resolve the finding. The resolution is expected to be resolved in December, 2015.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

**SECTION III – FEDERAL AWARD FINDINGS**

*PRIOR YEAR FINDINGS:*

NONE

*CURRENT YEAR FINDINGS:*

**2015-001 – Grant Management - Compliance**

**10.770 FY2012 USDA-RD Colonias Grant**

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
EXIT CONFERENCE  
JUNE 30, 2015**

The contents of this report were discussed with the Otis Mutual Domestic Water Consumers and Sewage Works Association representatives on November 23, 2015. The following individuals were present for the conference:

**Otis MDWC & SWA**

Cutter Rogers, General Manager  
Lori Whitaker, Office Manager  
Danny Bass, Vice-President  
James Fry, Secretary-Treasurer

**Scott Northam, CPA, PC**

Scott Northam, CPA

The financial statements of Otis Mutual Domestic Water Consumers and Sewage Works Association were prepared by Scott Northam, CPA, PC, from original books and records provided by and with assistance from the management of the Association.

Although standards strongly emphasize the Association prepare its own financial statements, the consensus between the Association management and the auditor was that it would be more time and cost efficient for the auditor to prepare the financial statements and the related notes. Accordingly, the Association designated a competent management-level individual to oversee the auditor's services, make all management decisions and perform all management functions. The Association reviewed, approved, and accepted responsibility for the accompanying financial statements and related notes, supplemental schedules, and schedule of expenditures of federal awards, and for ensuring that the underlying accounting records adequately support the preparation of the financial in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance.