

**OTIS**  
**MUTUAL DOMESTIC WATER CONSUMERS**  
**AND SEWAGE WORKS ASSOCIATION**  
**AUDITED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

## **INTRODUCTORY SECTION**

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JUNE 30, 2016**

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**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
OFFICIAL ROSTER  
JUNE 30, 2016**

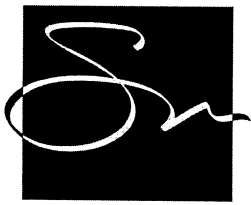
**BOARD OF DIRECTORS**

<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, 2016, and the related notes to the financial statements, which comprise the Association's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information, as defined by the Governmental Accounting Standards Board, as of and for the year ended June 30, 2016, 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 opinions 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 qualified audit opinions.

## **Basis for Qualified Opinions**

Management has not adopted an internal control methodology sufficient enough to prevent or detect fraudulent activities by Association personnel. Accounting principles generally accepted in the United States of America require the Association design, implement, and maintain an internal control system sufficient enough to provide for the preparation and fair presentation of financial statements to be free from material misstatement, whether due to fraud or error. The amount by which this departure affects the assets, liabilities, deferred inflows and outflows, net position, revenues or expenses of the Association has not been determined.

The Association did not properly reconcile and monitor unrestricted cash recorded within the general ledger with amounts reflected in the bank accounts. The accounting software does not reconcile with the amount reflected in the bank accounts. Proper reconciliation of the cash amounts is dependent on financial activity that occurs during the fiscal year. The effect of the proper reconciliation of cash, which affects assets, liabilities, deferred inflows and outflows, net position, revenues, or expenses, has not been determined.

## **Qualified Opinions**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for Otis Mutual Domestic Water Consumers and Sewage Works Association, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraphs the financial statements referred to above present fairly, in all material respects, the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

We draw attention to Note I of the financial statements which discloses that, subsequent to the fiscal year end, the discovery of misappropriation of assets by an Association employee and the resulting actions taken by the Association. Our opinion is 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) 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.

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.

Accounting principles generally accepted in the United States of America require that the Schedules of Required Supplementary Information for Pension Plan and related notes 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 consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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 May 27, 2017, 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.

A handwritten signature in black ink, appearing to read "Scott Northam", with a stylized flourish at the end.

Scott Northam, CPA, PC  
Ruidoso, New Mexico  
May 27, 2017



**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**ASSETS AND DEFERRED OUTFLOWS**

**CURRENT ASSETS**

Cash and Cash Equivalents	
Unrestricted	\$ 263,603
Restricted - USDA RUS	74,443
Accounts Receivable	112,125
Inventory	<u>184,720</u>
<b>TOTAL CURRENT ASSETS</b>	<u><u>634,891</u></u>

**NONCURRENT ASSETS**

Cash and Cash Equivalents	
Customer Deposits	77,665
Employee Theft Receivable	287,014
Capital Assets, Net	<u>4,809,929</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u><u>5,174,608</u></u>
<b>TOTAL ASSETS</b>	<u><u>5,809,499</u></u>

**DEFERRED OUTFLOWS**

Deferred Outflows - PERA	<u>23,888</u>
<b>TOTAL DEFERRED OUTFLOWS</b>	<u><u>23,888</u></u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u><u>\$ 5,833,387</u></u>

## LIABILITIES, DEFERRED INFLOWS AND NET POSITION

### LIABILITIES

#### CURRENT LIABILITIES

Accounts Payable	\$ 15,989
Accrued Wages	5,592
Accrued Payroll Tax Liabilities	906
Sales Tax Payable	7,090
Accrued Vacation, Current Portion	7,755
Long-Term Debt, Current Portion	18,852

**TOTAL CURRENT LIABILITIES** 56,184

#### NONCURRENT LIABILITIES

Customer Deposits	77,665
Accrued Vacation, Net of Current Portion	17,130
Long-Term Debt, Net of Current Portion	682,156
Long-Term PERA Payable	314,033

**TOTAL NONCURRENT LIABILITIES** 1,090,984

**TOTAL LIABILITIES** 1,147,168

#### DEFERRED INFLOWS

Deferred Inflows - PERA	8,071
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**TOTAL DEFERRED INFLOWS** 8,071

#### NET POSITION

Net Investment in Capital Assets	4,108,921
Restricted	74,443
Unrestricted	494,784

**TOTAL NET POSITION** 4,678,148

**TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION** \$ 5,833,387

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

<b>OPERATING REVENUES</b>	
Water Sales and Charges for Service	\$ 1,259,055
Late Charges and Service Fees	11,296
Rental and Lease Income	1,497
Other Income	36,298
<b>Total Operating Revenues</b>	1,308,146
 <b>OPERATING EXPENSES</b>	
Wages and Salaries	340,026
Payroll Taxes	24,773
Retirement	13,277
Other Employee Benefits	122,464
Advertising	508
Auto Expense	53,641
Travel	13,836
Training and Education	656
Dues and Subscriptions	5,601
Licenses, Fees, and Permits	5,035
Equipment Rental and Supplies	110,744
Insurance	23,697
Office and Administrative Expense	22,878
Postage and Shipping	9,401
Bank and Credit Card Fees	12,120
Professional Fees and Contracted Services	43,727
Repairs and Maintenance	125,074
Property and Other Taxes	1,395
Utilities	75,614
Water Purchases	20,746
Depreciation	82,444
<b>Total Operating Expenses</b>	1,107,657
<b>Operating Income</b>	200,489
 <b>NON-OPERATING REVENUE (EXPENSE)</b>	
Interest Income	577
Interest Expense	(9,176)
<b>Total Non-operating Income (Expense)</b>	(8,599)
<b>Income Before Capital Grants</b>	191,890
 <b>CAPITAL GRANTS</b>	
Capital Grants	
Federal	265,708
State	31,898
<b>Total Capital Grants</b>	297,606
<b>CHANGE IN NET POSITION</b>	489,496
<b>NET POSITION, BEGINNING OF YEAR</b>	4,166,639
Prior Period Adjustment	22,013
<b>NET POSITION, END OF YEAR</b>	\$ 4,678,148

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, 2016**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers and Users	\$ 1,253,688
Payments to and on Behalf of Employees	(492,212)
Payments to Suppliers and Contractors	(523,096)
Other Receipts, Net	<u>36,298</u>
Net Cash Provided by Operating Activities	<u>274,678</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	577
Capitalized Interest	(10,444)
Capital Asset Purchases	<u>(562,057)</u>
Net Cash Used by Investing Activities	<u>(571,924)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Unauthorized Funds Expenditure	<u>(287,014)</u>
Net Cash Used by Non-Capital Financing Activities	<u>(287,014)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Capital Grants	297,606
Principal Payments on Notes Payable	(21,573)
Interest Expense	<u>(9,176)</u>
Net Cash Provided by Capital Financing Activities	<u>266,857</u>
<b>NET CHANGE IN CASH</b>	(317,403)
<b>CASH AT BEGINNING OF YEAR</b>	<u>733,114</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 415,711</u></u>

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

Operating Income	\$	200,489
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation		82,444
Long-Term PERA Payable		73,760
Deferred Inflows		(86,093)
Deferred Outflows		1,422
<b>Change in</b>		
Accounts Receivable		(3,257)
Payroll Taxes Receivable		14,834
Inventory		21,690
Accounts Payable		(20,113)
Accrued Wages		3,240
Accrued Payroll Tax Liabilities		(1,726)
Sales Tax Payable		(15,478)
Accrued Vacation		2,891
Customer Deposits		575
Cash Provided by Operating Activities	\$	<u>274,678</u>

**Reconciliation to Statement of Net Position**

Unrestricted	\$	263,603
Restricted - USDA RUS		74,443
Customer Deposits		77,665
Total Cash and Cash Equivalents	\$	<u>415,711</u>

**Supplemental Cash Flow Disclosures**

Interest Capitalized	\$	10,444
Interest Expensed		9,176
Escrow Funds Released for Water Rights		500,000

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 pursuant to the Sanitary Projects Act (SPA) (3-29-1 NMSA 1978) 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.

Attorney General Opinion 06-02 determined that MDWAs created pursuant to the SPA are public bodies/political subdivisions, whose revenues are "public money" and they have statutory responsibilities to abide by, such as the Open Meetings Act, the Inspection of Public Records Act, the Procurement Code, and the Per Diem and Mileage Act. Since 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.

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,

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 accounts of the Association are organized on the basis of one fund that is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. All assets, all liabilities and deferred outflows and inflows of resources associated with the operations are included on the statement of net position. Government resources are allocated to and accounted for in the fund based upon the purpose for which spending activities are controlled. In this report, the fund is presented in the financial statements as a proprietary fund.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

The proprietary fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public 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 accounting and financial reporting treatment applied to the Association is determined by its measurement focus. The transactions of the Association are accounted for on the accrual basis 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 USDA-RUS. 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 USDA-RUS 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, 2016 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, 2016**

**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 meters, 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:

<b>Assets</b>	<b>Years</b>
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, 2016.

**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. The remaining balance of the net position not falling into these categories is considered unrestricted for the Association's use.



**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 during the fiscal year.

**Budgetary Compliance** - 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 as a special-purpose governmental organization organized under the SPA,, however the budget is to be filed with the DFA to be in compliance with the Colonias grant.

**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, 2016**

**NOTE B - CASH AND CASH EQUIVALENTS**

At June 30, 2016, 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, 2016, of the cash and cash equivalents.

	<b>Bank Balance June 30, 2016</b>	<b>Outstanding Deposits</b>	<b>Outstanding Checks</b>	<b>Book Balance June 30, 2016</b>
<b>Western Commerce Bank</b>				
Checking Account	\$ 84,756	\$ 40,899	\$ (16,516)	\$ 109,139
Money Market Account	231,209	-	-	231,209
<b>Carlsbad National Bank</b>				
Debt Service Reserve	74,309	-	-	74,309
USDA Construction Account	133	-	-	133
Short Lived Assets Account	<u>621</u>	<u>-</u>	<u>-</u>	<u>621</u>
Total Cash in Banks	<u>\$ 391,028</u>	<u>\$ 40,899</u>	<u>\$ (16,516)</u>	415,411
Cash on Hand				<u>300</u>
Total Cash on Books				<u>\$ 415,711</u>

As Reported in the Financial Statements:

Restricted Cash			
USDA-RUS account		\$ 74,443	
Customer Deposits		<u>77,665</u>	\$ 152,108
Unrestricted Cash			
			<u>263,603</u>
Total Cash on Books			
			<u>\$ 415,711</u>

In accordance with Section 6-10-17, NMSA 1978, 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>	\$ 315,965	\$ 75,063	\$ 391,028
Less FDIC Coverage	<u>(250,000)</u>	<u>(75,063)</u>	<u>(325,063)</u>
Uninsured Funds	65,965	-	65,965
Collateral Pledged by Bank	<u>357,848</u>	<u>-</u>	<u>357,848</u>
Uninsured and Uncollateralized	<u>\$ (291,883)</u>	<u>\$ -</u>	<u>\$ (291,883)</u>
50% Pledged Collateral Requirement per Statute	\$ 32,983	\$ -	\$ 32,983
Pledged Collateral	<u>357,848</u>	<u>-</u>	<u>357,848</u>
(Over) Under Collateralized	<u>\$ (324,865)</u>	<u>\$ -</u>	<u>\$ (324,865)</u>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 other than state statutes. As of June 30, 2016, \$65,965 of the Association's bank balance of \$391,028 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	\$ 29,243	\$ 28,216
SBAP Series 2009-20F	6/01/2029	243,473	217,785
FNMA #888129	2/01/2037	50,892	44,996
FHLMC #C00553	9/01/2027	14,143	12,128
FHLMC #420168	12/02/2029	<u>20,097</u>	<u>18,852</u>
Total Collateral Pledged		<u>\$ 357,848</u>	<u>\$ 321,977</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. Depreciation expense for the fiscal year was approximately \$82,444.

Capital asset activity for the year ended June 30, 2016 was as follows:

	<b>Balance June 30, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2016</b>
<b>Non-depreciable Capital Assets</b>				
Construction in Progress	\$ 1,615,883	\$ 243,544	\$ -	\$ 1,859,427
Land and Water Rights	<u>1,429,461</u>	<u>800,015</u>	<u>-</u>	<u>2,229,476</u>
Total Non-depreciable Capital Assets	<u>3,045,344</u>	<u>1,043,559</u>	<u>-</u>	<u>4,088,903</u>
<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	28,943	(38,923)	600,184
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>28,943</u>	<u>(38,923)</u>	<u>3,544,368</u>
<b>Less Accumulated Depreciation</b>				
Water System Lines	(1,347,230)	(11,653)	-	(1,358,883)
Water Wells and Tanks	(775,578)	(37,911)	-	(813,489)
Tools and Equipment	(532,802)	(27,493)	38,923	(521,372)
Building and Well House	<u>(124,211)</u>	<u>(5,387)</u>	<u>-</u>	<u>(129,598)</u>
Total Accumulated Depreciation	<u>(2,779,821)</u>	<u>(82,444)</u>	<u>38,923</u>	<u>(2,823,342)</u>
Total Depreciable Capital Assets, Net	<u>774,527</u>	<u>(53,501)</u>	<u>-</u>	<u>721,026</u>
Capital Assets, Net	<u>\$ 3,819,871</u>	<u>\$ 990,058</u>	<u>\$ -</u>	<u>\$ 4,809,929</u>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, 2016 is detailed below.

	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>	<b>Payable</b>
	<b>June 30, 2015</b>			<b>June 30, 2016</b>	<b>Within One</b>
					<b>Year</b>
Compensated Absences	<u>\$ 21,994</u>	<u>\$ 14,956</u>	<u>\$ (12,065)</u>	<u>\$ 24,885</u>	<u>\$ 7,755</u>

**NOTE E - RELATED PARTY TRANSACTIONS**

A current board member owns and operates an auto repair business located across the highway from the Association's office. As a convenience, the Association sometimes has vehicles serviced or repaired at the board member's business. Rates charged to the Association are at market rates charged to the general public and are comparable to rates charged by other auto repair businesses in the immediate area. Association members are notified of the relationship with the board member during the Association's annual meeting with the membership. Total amount paid to the board member for auto repair services for the year ended June 30, 2016 was approximately \$8,917.

Each board member maintains a utility account with the Association for water service. Monthly water usage is billed to the respective board members' accounts at the nominal approved rates and are subject to the same collections proceedings as other Association members.

The office manager and the general manager are related as mother and son. The Association does not have a formal nepotism clause prohibiting relationship status between employees. The Board of Directors were aware of the relationship when the general manager was promoted to the position during the 2011 fiscal year.

**NOTE F - LONG-TERM DEBT**

The Association has the following long-term debt obligations as of June 30, 2016:

**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.

**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.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**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.

The Association paid approximately \$19,620 in interest expense and finance charges, of which \$10,444 was attributed to long-term obligations and capitalized during the construction of the infrastructure improvements. The remaining \$9,176 of interest paid was expensed when incurred.

Long-term debt activity for the year ended June 30, 2016 was as follows:

Obligation	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year	Capitalized Interest
USDA-RUS 91-02	\$ 393,512	\$ -	\$ (8,048)	\$ 385,464	\$ 4,966	\$ 10,444
NMED/RIP 2012-03	302,194	-	(12,032)	290,162	12,393	-
NMFA CIF-2772	<u>26,875</u>	-	<u>(1,493)</u>	<u>25,382</u>	<u>1,493</u>	-
Total Long-term Debt	<u>\$ 722,581</u>	<u>\$ -</u>	<u>\$ (21,573)</u>	<u>\$ 701,008</u>	<u>\$ 18,852</u>	<u>\$ 10,444</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	21,152	19,930	41,082
2022-2026	115,489	89,923	205,412
2027-2031	133,700	71,712	205,412
2032-2036	107,697	51,042	158,739
2037-2041	53,633	38,827	92,460
2042-2046	63,874	28,586	92,460
2047-2051	76,071	16,389	92,460
2052-2054	<u>50,624</u>	<u>3,028</u>	<u>53,652</u>
<b>Totals</b>	<u>\$ 701,008</u>	<u>\$ 404,997</u>	<u>\$ 1,106,005</u>

**NOTE G - RETIRE HEALTH CARE ACT CONTRIBUTIONS**

The Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive care group health insurance for persons who have retired from certain public service in New Mexico. The Association has elected not to participate in the program.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE H - PERA PENSION PLAN**

**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.

**Plan Description** - 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://saonm.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 I in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at:  
[www.pera.state.nm.us/pdf/AuditFinancialStatements/366 Public Employees Retirement Association 2015.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366%20Public%20Employees%20Retirement%20Association%202015.pdf).

**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 FY 14 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 FY 15 annual audit report at [http://osanm.org/media/audits/366 Public Employees Retirement Association 2015.pdf](http://osanm.org/media/audits/366%20Public%20Employees%20Retirement%20Association%202015.pdf). The PERA coverage options that applies to the Association is the General Division. Statutorily required contributions to the pension plan from the Association were \$24,347 and employer paid member benefits that were "picked up" by the employer were \$-0- 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, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015.

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 that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2015.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 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.

**PERA Fund Division – General** - At June 30, 2016, the Association reported a liability of \$314,033 for its proportionate share of the net pension liability. At June 30, 2015, the Association's proportion was 0.0308%, which was the same as its 0.0308% proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Association recognized PERA Fund - General, pension expense of \$13,277. At June 30, 2016, the Association reported PERA Fund Division - General deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in Assumption	\$ -	\$ 122
Changes in Proportion	-	-
Differences Between Expected and Actual Experience	-	6,956
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	993
Association Contributions Subsequent to Measurement Date	<u>23,888</u>	<u>-</u>
<b>Totals</b>	<b><u>\$ 23,888</u></b>	<b><u>\$ 8,071</u></b>

For the General Division, \$23,888 is reported as deferred outflows of resources related to pensions resulting from Association contributions subsequent to the measurement date June 30, 2015 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30,</b>	
2017	\$ (8,317)
2018	(8,317)
2019	(8,317)
2020	<u>16,880</u>
<b>Totals</b>	<b><u>\$ (8,071)</u></b>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

**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, 2014 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, 2015 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, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Actuarial Valuation Date	June 30, 2014
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
Projected Benefit Payment	100 Years
Payroll Growth	3.50% Annual Rate
Projected Salary Increases	3.50% to 14.25% Annual Rate
Included Inflation at	3.00% Annual Rate

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	<u>4.0</u>	4.15
<b>Totals</b>	<b><u>100.0%</u></b>	

**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.



**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**Sensitivity of the Association's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -**

The following table shows the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents 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>\$ 534,673</u>	<u>\$ 314,033</u>	<u>\$ 130,585</u>

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued FY15 PERA financial report. The report is available at: [www.pera.state.nm.us/publications.html](http://www.pera.state.nm.us/publications.html).

**Payables to the Pension Plan** - At June 30, 2016, the Association had no outstanding contributions to the pension plan which is reported within current liabilities on the balance sheet.

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

**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. Approximately \$9,377 has been disbursed by NMED in the 2016 fiscal year for engineering costs on the project. The Association has until June 30, 2018 to spend the remaining \$190,623 before the remaining balance reverts back to the State.

**NMED 15-0503-STB Water Mains Phase 6 Improvements Grant** - The Association has received approval for a \$50,000 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. Funding for this grant has been delayed due to the 2015 and 2016 audited financials not filed within the appropriate time frame.

**Water Rights 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 agreed to transfer seventy-five (75) acre-feet of commercial water rights to the farming partnership.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**Employee Theft** – On April 18, 2017, an employee of the Association resigned and admitted to using the Association’s credit card to misappropriate cash funds over a two-year period. Funds misappropriated include approximately \$12,087 in the 2015 fiscal year and \$274,927 for the 2016 fiscal year, totaling \$287,014 which has been reported as Employee Theft Receivable on the Balance Sheet. Approximately \$558,477 was misappropriated in the 2017 fiscal year for an approximate loss amount of \$845,491. However, the 2017 fiscal year has yet to be audited, therefore the amount is tentative as of the date of the audit report. The funds in question were from cash reserves the Association has accumulated over the years designated for upgrades and repairs to water towers and other infrastructure, and did not include Federal Colonias or SNMEDD funding.

The underlying documentation and information has been turned over to the Federal Bureau of Investigation, Office of the State Auditor and the District Attorney’s office for review and appropriate action. The Association has submitted a tentative notice of claim to its insurance company for \$500,000, the maximum amount of policy coverage.

**NOTE J - PRIOR PERIOD ADJUSTMENTS**

The Association hired an independent accounting firm to review the accounting records for the period of the alleged misappropriation. The result of the reclassifications of certain expenditures to assets and liabilities accounts changed the ending balances at June 30, 2015 and increased the net income of the 2015 fiscal year as reported on the Association’s accounting records by approximately \$44,984 and changed the ending cash balance by approximately \$28,113.

In August 2015, 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 2016 fiscal year, totaling approximately \$91,643, of which \$14,834 were later identified as duplicate payments and recorded as a receivable in the 2015 fiscal year. A prior period adjustment of \$22,971 was made to correct the liabilities within the proper period.

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

Net Position - June 30, 2015 - Originally Reported	\$	4,166,639
Adjustments to Prior Period Cash and Expenses		44,984
Prior Year Payroll Tax Liability Adjustment		<u>(22,971)</u>
Total Adjustments		<u>22,013</u>
<b>Net Position - June 30, 2015 - As Adjusted</b>	<b>\$</b>	<b><u>4,188,652</u></b>

**REQUIRED SUPPLEMENTARY INFORMATION**

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION  
LIABILITY AND REQUIRED CONTRIBUTIONS  
LAST 10 FISCAL YEARS\***

<b>Actuarial Valuation Date</b>	<b>6/30/14</b>	<b>6/30/15</b>
<b>Schedules of Proportionate Share of Net Pension Liability</b>		
Proportion of Net Pension Liability	0.0308%	0.0308%
Net Pension Liability	240,273	314,033
Annual Covered Payroll	291,263	289,005
NPL as Percentage of Covered Payroll	82.49%	108.66%
Fiduciary Net Position as a Percentage of Total Pension Liability	81.29%	76.99%
<b>Schedules of Required Contributions</b>		
Contractually Required Contribution	24,347	23,888
Contributions Made	24,347	23,888
Contributions as Percentage of Covered Payroll	8.36%	8.27%

\*The amounts presented above 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.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2016**

**Changes of Benefit Terms** - The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at:  
[http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2015.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf).

**Changes of Assumptions** - Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at:  
[http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2015%20PERA%20Valuation%20Report\\_FINAL.pdf](http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2015%20PERA%20Valuation%20Report_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.

## **SUPPLEMENTARY INFORMATION**

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)**  
**YEAR ENDED JUNE 30, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Charges for Services	\$ 1,483,660	\$ 1,483,660	\$ 1,256,373	\$ (227,287)
Other Income	-	-	49,091	49,091
<b>Total Operating Revenues</b>	1,483,660	1,483,660	1,305,464	(178,196)
<b>EXPENDITURES</b>				
<b>Current</b>				
Personnel Services	618,818	618,818	422,092	196,726
Utilities	130,907	130,907	96,360	34,547
Maintenance, Materials and Supplies	618,818	618,818	237,395	381,423
Other Expenditures	307,371	307,371	192,495	114,876
Depreciation	124,938	124,938	82,444	42,494
<b>Capital Outlay</b>	-	-	562,057	(562,057)
<b>Total Operating Expenses</b>	1,800,852	1,800,852	1,592,843	208,009
<b>Operating Loss</b>	(317,192)	(317,192)	(287,379)	29,813
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Principal	-	-	(21,573)	(21,573)
Interest Expense and Administrative Fees	-	-	(19,620)	(19,620)
Employee Theft Receivable	-	-	(287,014)	(287,014)
Capital Grants	-	-	297,606	297,606
Interest Income	-	-	577	577
<b>Total Nonoperating Revenues (Expenses)</b>	-	-	(30,024)	(30,024)
<b>Net Change in Net Position</b>	(317,192)	(317,192)	(317,403)	(211)
<b>Cash - Beginning of Year</b>	733,114	733,114	733,114	-
<b>Cash - End of Year</b>	\$ 415,922	\$ 415,922	\$ 415,711	\$ (211)
<b>Reconciliation to GAAP Basis</b>				
<b>Change in Net Position - Budget Basis</b>			\$ (317,403)	
Capital Outlay			562,057	
Principal Payments			(21,573)	
Net Changes in Deferred Inflows and Outflows			(1,887)	
Employee Theft Receivable			287,014	
Change in:				
Accounts Receivable			(3,257)	
Inventory			21,690	
Accounts Payable			(20,113)	
Accrued Wages			3,240	
Accrued Payroll Tax Liabilities			(23,738)	
Accrued Vacation			2,891	
Customer Meter Deposits			575	
<b>Change in Net Position - GAAP Basis</b>			\$ 489,496	

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF CAPITAL OUTLAY EXPENDITURES  
YEAR ENDED JUNE 30, 2016**

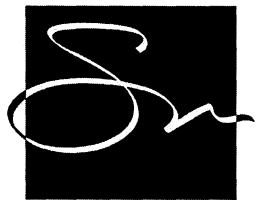
Grant Source	Program or Grant Number	Execution Date	Reversion Date	Grant Amount	Prior Years Expenditures	Current Year Expenditures	Remaining Grant Expenditures
New Mexico Environment Department	SAP 12-1346 STB	8/21/2012	6/30/2016	\$ 150,000	\$ 127,479	\$ 22,521	\$ -
New Mexico Environment Department	SAP-14-1625-STB	12/4/2014	6/30/2018	200,000	-	9,377	190,623
				<u>\$ 350,000</u>	<u>\$ 127,479</u>	<u>\$ 31,898</u>	<u>\$ 190,623</u>



**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF VENDOR EXPENDITURES  
PURCHASES OF OVER \$60,000 (EXCLUDING GRT)  
(UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016**

<i>RFB#/ RFP#</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical Address of Vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>
N/A	Sole Source	Blue Cross Blue Shield of NM	N/A	\$ 89,232	\$ 89,232	4373 Alexander Blvd NE, Albuquerque, NM 87107	N	N	Health Insurance
N/A	Sole Source	Ellis Welding & Fabrication	N/A	\$ 76,673	\$ 76,673	108 S. 5th St., Carlsbad, NM 88220	N	N	Water tower and well repairs and maintenance

## **INTERNAL CONTROL AND COMPLIANCE**



**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, 2016, and the related notes to the financial statements, which comprise the Association's basic financial statements. We also have audited the budgetary comparison presented as supplementary information, and have issued our report thereon dated May 27, 2017. Our report opinion is qualified on such financial statements because management has not adopted an internal control methodology sufficient enough to prevent or detect fraudulent activities by Association personnel.

**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 responses, we identified certain deficiencies in internal control that we consider to be either material weakness or 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 referenced as 2012-001, 2016-001, and 2016-003 described in the accompanying schedule of finding and responses 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 did not find any deficiencies to be considered significant deficiencies.

## **Compliance and Other Matters**

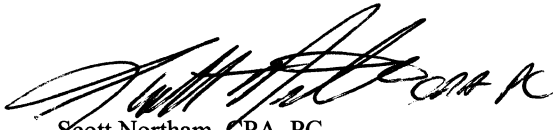
As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 responses as items 2016-002 and 2016-004.

## **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 responses. 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  
May 27, 2017

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2016**

**2012-001 - Segregation of Duties (Revised and Repeated) – Material Weakness**

**CONDITION** - The Association has a limited segregation of duties due to lack of budgetary funding for additional personnel, allowing personnel to control several incompatible duties and responsibilities without proper supervision. The office manager had unsupervised access to the online credit card account, online bank checking and money market accounts. This finding has been elevated from Significant Deficiency to Material Weakness due to the recession of progress made in correcting this deficiency.

**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 relegated the Association to consolidate some incompatible accounting and administrative functions without adequate oversight or supervision.

**EFFECT** - The lack of proper segregation of duties allowed the office manager to misappropriate a material amount of cash assets.

**RECOMMENDATION** - The Association should thoroughly analyze the responsibilities of the office employees and their access to liquid assets and review the controls in place to reduce the effect of the lack of segregation of duties

**MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION** - At the April 2017 board meeting, the Board of Directors hired a local independent accounting firm to record, report and administer the Association's monthly financial statements and reconciliations. Current office personnel are restricted to recording deposits that have been reviewed for accuracy and to input and write checks for approval by appointed board members. The Vice-President and general manager are overseeing the changes within the office structure and should have the finding resolved by June 2017.

**2016-001 - Internal Control Deficiencies (Revised and Repeated) - Material Weakness**

**CONDITION** - During our audit, we noted the following issues:

- The Association did not have effective procedures and policies in place to be able to analyze and review the financial operations and conditions of the Association at any given time.
- The Association lacked a process to review and reconcile financial statements on a monthly basis.
- The Association was not performing a secondary review of bank reconciliations being performed by the office manager.
- The Association lacked formal policies and procedures regarding online bank transfers and online bill payments.

**CRITERIA** - *The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are the Board of Directors' responsibility. The Board is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The Association shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with GAAP.*

**CAUSE** - The Association did not have policies and procedures to ensure internal controls were in place and working properly or effectively.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**2016-001 - Internal Control Deficiencies (Revised and Repeated) - Material Weakness (Cont.)**

**EFFECT** - The inadequate internal control structure allowed the business manager to circumvent controls and misappropriate a material amount of assets for an extended period.

**RECOMMENDATIONS** - The Association should begin preparing and independently reviewing formal bank reconciliations. The Association should also review financial statements that are prepared directly from the underlying accounting records on a monthly basis.

**MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION** - The Board Vice-President is reviewing the overall flow of information in the office and making the necessary corrections to prevent other instances of malfeasance in the future. At the April 2017 board meeting, the Board of Directors hired an independent accounting firm to administer the Association's monthly financial statements and reconciliations to work in conjunction with the Vice-President, and should have the finding resolved by June 2017.

**2016-002 - Late Submission of Audit Report – Compliance**

**CONDITION** - The audit report for the fiscal year ended June 30, 2016 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 15th following the end of the fiscal year.

**CAUSE** - An employee of the Association intentionally delayed the audit to defer the discovery of the misappropriation of funds.

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

**RECOMMENDATION** - We recommend the Association's Board of Directors be proactive in the audit scheduling, fieldwork and report preparation by maintaining communications with the external auditor and the State Auditor's Office regarding progress of the audit and any issues faced by the Association.

**MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION** - The Board of Directors and the general manager will coordinate the audit timing with the external auditor for the upcoming fiscal year. The Vice-President of the Board and the general manager will be responsible for the completion of the Fiscal Year 2017 audit and the finding should be resolved in December 2017 with the audit being properly submitted before the statutory deadline.

**2016-003 - Trial Balance Did Not Tie to Prior Year's Audit Report or Cash Balance - Material Weakness**

**CONDITION** - The cash per the trial balance did not agree to the prior year's audit report. The cash report ending balance was changed due to prior period reclassifications and adjustments by an independent accounting firm. The changes in the prior period affected the operating cash balance by increasing the balance by approximately \$28,113 and increased the prior period net income by approximately \$44,984.

**CRITERIA** - Government Accounting Standards and accounting principles generally accepted in the United States require the Association's records and documents be accurate and reflective of the financial transactions of the entity.

**CAUSE** - The prior year audit adjustments were not reviewed prior to their recording to ensure that they were correctly entered into the accounting records. Reclassifications for payroll taxes and credit card charges made in the prior year affected the assets, liabilities, revenue, expenses and net position of the financials.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**2016-003 - Trial Balance Did Not Tie to Prior Year's Audit Report or Cash Balance - Material Weakness (Cont.)**

**EFFECT** - The Association's current year trial balance was not accurate and had to be significantly adjusted in order to complete the current year audit report.

**RECOMMENDATION** - We recommend that the Association provide additional training and cross training to staff in the area of finance in order to maintain consistent and accurate financial information or hire contract accounting help to provide adequate assistance in recording consistent transactions during the year and at year-end.

**MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION** - The Association's office personnel is receiving training and cross training to properly record deposits and expenses within the accounting system. The Board of Directors will ensure the implementation and monitoring of the corrective action plan, effective immediately. At the April 2017 board meeting, the Board of Directors hired an independent accounting firm to reconcile and prepare the Association's monthly financial statements, aiding in the resolution of the finding by August 2017.

**2016-004 - Budgetary Completeness and Accuracy - Compliance**

**CONDITION** - The Sanitary Projects Act exempts the Association from being required to submit an annual budget to the Department of Finance and Administration, but the Association is required to submit a simplified budget to the DFA as a condition of the UDSA-RUS Colonias Grant. The original budget summary submitted and approved by the DFA and adopted by the Association does not reconcile to the detailed information within the budget submission. The total budgeted expenses summary versus detail was understated by approximately \$205,200.

**CRITERIA** - Section 6-6-6 NMSA, 1978, requires local public bodies to adhere to the legally adopted budget. To ensure budgetary compliance to process for monitoring, the budget must include the correct budget amounts. Reconciliation of the legally adopted budget to actual revenues and expenses should be used to monitor the budget and is critical to ensuring budgetary compliance.

**CAUSE** - The Association did not place a priority on budgetary compliance since it normally does not have an annual requirement.

**EFFECT** - Not properly reporting budgetary information for grant purposes could put the current and future grant awards at risk.

**MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION** - The Board of Directors and the general manager will place greater emphasis on the budgetary process in the future as a management tool and will review the budget submission for accuracy and completeness. The Vice-President of the Board and general manager is tasked with this project and the finding should be resolved by July 2017, when the final budget for the fiscal year is compared to the general ledger.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
STATUS OF PRIOR YEAR FINDINGS  
JUNE 30, 2016**

<b>Finding</b>	<b>Status</b>
2012-001 Segregation of Duties	Revised, Repeated
2013-002 Late Submission of Audit Contract and Recommendation	Resolved
2013-003 Payroll Taxes Reporting and Reconciliation	Resolved
2015-001 Grant Management	Resolved



**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION  
EXIT CONFERENCE  
JUNE 30, 2016**

The contents of this report were discussed with the Otis Mutual Domestic Water Consumers and Sewage Works Association representatives on May 27, 2017. The following individuals were present for the conference:

**Otis MDWC & SWA**

Cutter Rogers, General Manager  
Danny Bass, Vice-President

**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 and supplementary schedules, and for ensuring that the underlying accounting records adequately support the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance.