

**OTIS
MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

INTRODUCTORY SECTION

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JUNE 30, 2018**

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**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
OFFICIAL ROSTER
JUNE 30, 2018**

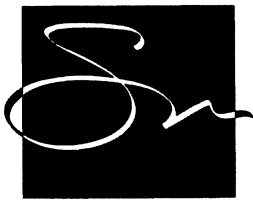
BOARD OF DIRECTORS

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

ASSOCIATION OFFICIALS

Cutter Rogers	General Manager
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FINANCIAL SECTION



SCOTT NORTHAM, CPA, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Wayne Johnson, 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 (the Association) as of and for the year ended June 30, 2018, 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 business-type activities of Otis Mutual Domestic Water Consumers and Sewage Works Association as of June 30, 2018, and, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Plans and related notes on pages 21-22 as listed in the table of contents 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Otis Mutual Domestic Water Consumers and Sewage Works Association's basic financial statements. The budgetary comparison is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information noted above and in the table of contents required by Section 2.2.2 NMAC 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 supplemental schedules required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, 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
September 28, 2018

OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS

Unrestricted Cash and Cash Equivalents	\$	745,362
Accounts Receivable		164,417
Inventory		214,117
		1,123,896
TOTAL CURRENT ASSETS		1,123,896

NONCURRENT ASSETS

Restricted Cash and Cash Equivalents		
Debt Service Reserve - USDA RUS	\$	74,600
Customer Deposits		118,910
Employee Theft Receivable (Net of Insurance Reimbursement)		357,543
Funds Held in Escrow		25,000
Capital Assets, Net		4,895,658
		5,471,711
TOTAL NONCURRENT ASSETS		5,471,711
TOTAL ASSETS		6,595,607

DEFERRED OUTFLOWS

Deferred Outflows - PERA		89,942
		89,942
TOTAL DEFERRED OUTFLOWS		89,942
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	6,685,549

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 76,863
Accrued Wages	5,540
Accrued Payroll Tax Liabilities	2,062
Sales Tax Payable	5,933
Accrued Vacation, Current Portion	7,755
Long-Term Debt, Current Portion	<u>19,966</u>
TOTAL CURRENT LIABILITIES	<u>118,119</u>

NONCURRENT LIABILITIES

Customer Deposits	118,910
Accrued Vacation, Net of Current Portion	6,955
Long-Term Debt, Net of Current Portion	642,675
Long-Term PERA Payable	<u>379,248</u>
TOTAL NONCURRENT LIABILITIES	<u>1,147,788</u>

TOTAL LIABILITIES

1,265,907

DEFERRED INFLOWS

Deferred Inflows - PERA	<u>43,651</u>
TOTAL DEFERRED INFLOWS	<u>43,651</u>

NET POSITION

Net Investment in Capital Assets	4,233,017
Restricted	
Debt Service	74,600
Unrestricted	<u>1,068,374</u>
TOTAL NET POSITION	<u>5,375,991</u>

TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION

\$ 6,685,549

OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Water Sales and Charges for Service	1,217,979
Late Charges and Service Fees	40,264
Rental and Lease Income	7,704
	<hr/>
Total Operating Revenues	1,265,947
OPERATING EXPENSES	
Wages and Salaries	309,753
Payroll Taxes	21,783
PERA Retirement	37,987
Other Employee Benefits	79,681
Advertising	1,881
Auto Expense	28,690
Travel and Per Diem	14,765
Training and Education	2,321
Dues and Subscriptions	-
Licenses, Fees, and Permits	6,036
Equipment Rental and Supplies	138,126
Insurance	47,796
Office and Administrative Expense	12,623
Postage and Shipping	10,618
Bank and Credit Card Fees	403
Professional Fees and Contracted Services	63,229
Repairs and Maintenance	155,971
Property and Other Taxes	7,874
Utilities	74,493
Water Purchases	21,290
Depreciation	83,197
	<hr/>
Total Operating Expenses	1,118,517
Operating Income	147,430
NON-OPERATING REVENUE (EXPENSE)	
Interest Income	598
Memberships	80,200
Easements and Right of Ways	82,320
Interest Expense	(22,945)
	<hr/>
Total Non-operating Income (Expense)	140,173
Income Before Capital Grants	287,603
CAPITAL GRANTS	
State	173,251
	<hr/>
Total Capital Grants	173,251
CHANGE IN NET POSITION	460,854
NET POSITION, BEGINNING OF YEAR	4,915,137
	<hr/>
NET POSITION, END OF YEAR	\$ 5,375,991
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The accompanying notes are an integral part of these financial statements.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 1,236,442
Payments to and on Behalf of Employees	(452,099)
Payments to Suppliers and Contractors	<u>(599,307)</u>
Net Cash Provided by Operating Activities	<u>185,036</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	598
Funds Held in Escrow	(25,000)
Capital Asset Purchases	<u>(199,800)</u>
Net Cash Used by Investing Activities	<u>(224,202)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Easements and Right of Way Proceeds	82,320
Employee Theft Insurance Proceeds	<u>500,000</u>
Net Cash Provided by Non-Capital Financing Activities	<u>582,320</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital Grants	173,251
Memberships	80,200
Loan Proceeds	20,000
Principal Payments on Notes Payable	(40,893)
Interest Expense	<u>(22,945)</u>
Net Cash Provided by Capital Financing Activities	<u>209,613</u>
NET CHANGE IN CASH	<u>752,767</u>
CASH AT BEGINNING OF YEAR	<u>186,105</u>
CASH AT END OF YEAR	<u><u>\$ 938,872</u></u>

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

Operating Income	\$	147,430
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Adjustments to Reconcile Operating Income to Net Cash**Provided by Operating Activities**

Depreciation	83,197
Long-Term PERA Payable	(52,121)
Deferred Inflows	9,345
Deferred Outflows	59,430

Change in

Accounts Receivable	(45,927)
Inventory	(74,338)
Accounts Payable	61,147
Accrued Wages	513
Accrued Payroll Tax Liabilities	(2,289)
Sales Tax Payable	(6,573)
Accrued Vacation	(17,773)
Customer Deposits	22,995

Cash Provided by Operating Activities	<u>\$</u>	<u>185,036</u>
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Reconciliation to Statement of Net Position

Unrestricted	\$	745,362
Restricted - USDA RUS		74,600
Customer Deposits		118,910

Total Cash and Cash Equivalents	<u>\$</u>	<u>938,872</u>
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Supplemental Cash Flow Disclosures

Cash Paid for Interest	\$	22,945
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OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 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.

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 format prescribed for special purpose government entities engaged only in business-type activities as described in GASB 34, paragraph 138

Under the guidelines of GASB 14, The Association is not considered 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. All assets, 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, 2018

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, 2018 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, 2018**

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:

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, 2018.

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, 2018

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 required to be presented to the New Mexico Department of Finance and Administration (DFA) for review, adjustment or approval as a special-purpose governmental organization organized under the SPA (3-29-1 NMSA 1978) since the Association's annual revenues are above \$10,000, and to comply with the Colonias grant requirements.

Budget Violation - The Association exceeded the budgetary authority in the fiscal year by approximately \$156,352

Compensated Absences - The Association permits full-time employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave may be accumulated up to 240 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 - GASB 56 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, 2018

NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2018, 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, 2018, of the cash and cash equivalents.

	Bank Balance June 30, 2018	Outstanding Checks	Book Balance June 30, 2018
Western Commerce Bank			
Checking Account	\$ 249,471	\$ (27,381)	\$ 222,090
Money Market Account	641,408	-	641,408
Carlsbad National Bank			
Debt Service Reserve	74,573	-	74,573
USDA Construction Account	27	-	27
Short Lived Assets Account	<u>474</u>	<u>-</u>	<u>474</u>
Total Cash in Banks	<u>\$ 965,953</u>	<u>\$ (27,381)</u>	938,572
Cash on Hand			<u>300</u>
Total Cash on Books			<u>\$ 938,872</u>

As Reported in the Financial Statements:

Restricted Cash			
USDA-RUS Accounts		\$ 74,573	
Debt Service Reserve		27	
Customer Deposits		<u>118,910</u>	\$ 193,510
Unrestricted Cash			<u>745,362</u>
Total Cash on Books			<u>\$ 938,872</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.

	Western Commerce Bank	Carlsbad National Bank	Totals
Deposits:	\$ 890,879	\$ 75,074	\$ 965,953
Less FDIC Coverage	<u>(250,000)</u>	<u>(75,074)</u>	<u>(325,074)</u>
Uninsured Funds	640,879	-	640,879
Collateral Pledged by Bank	<u>438,508</u>	<u>-</u>	<u>438,508</u>
Uninsured and Uncollateralized	<u>\$ 202,371</u>	<u>\$ -</u>	<u>\$ 202,371</u>
50% Pledged Collateral Requirement per Statute	\$ 320,440	\$ -	\$ 320,440
Pledged Collateral	<u>438,508</u>	<u>-</u>	<u>438,508</u>
(Over) Under Collateralized	<u>\$ (118,068)</u>	<u>\$ -</u>	<u>\$ (118,068)</u>

OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, the Association did not have any cash deposits exposed to custodial credit risk before applying the pledged collateral.

Western National Bank		Market	
Pledged Collateral*:	Maturity	Value	Par Value
SBAP Series 2009-20F	6/01/2029	143,476	135,564
SBAP Series 2009-20E	5/01/2029	<u>295,032</u>	<u>283,346</u>
Total Collateral Pledged		<u>\$ 438,508</u>	<u>\$ 418,910</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 \$83,197.

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance			Balance
	June 30, 2017	Increases	Decreases	June 30, 2018
Non-depreciable Capital Assets				
Construction in Progress	\$ 1,906,270	\$ -	\$ (1,906,270)	\$ -
Land and Water Rights	<u>2,229,479</u>	<u>-</u>	<u>-</u>	<u>2,229,479</u>
Total Non-depreciable Capital Assets	<u>4,135,749</u>	<u>-</u>	<u>(1,906,270)</u>	<u>2,229,479</u>
Depreciable Capital Assets				
Water System Lines	1,633,201	2,097,968	-	3,731,169
Water Wells and Tanks	1,160,045	-	-	1,160,045
Tools and Equipment	600,184	8,102	-	608,286
Building and Well House	<u>150,938</u>	<u>-</u>	<u>-</u>	<u>150,938</u>
Total Depreciable Capital Assets	<u>3,544,368</u>	<u>2,106,070</u>	<u>-</u>	<u>5,650,438</u>
Less Accumulated Depreciation				
Water System Lines	(1,370,504)	(19,585)	-	(1,390,089)
Water Wells and Tanks	(847,714)	(33,297)	-	(881,011)
Tools and Equipment	(547,874)	(26,100)	-	(573,974)
Building and Well House	<u>(134,970)</u>	<u>(4,215)</u>	<u>-</u>	<u>(139,185)</u>
Total Accumulated Depreciation	<u>(2,901,062)</u>	<u>(83,197)</u>	<u>-</u>	<u>(2,984,259)</u>
Total Depreciable Capital Assets, Net	<u>643,306</u>	<u>2,022,873</u>	<u>-</u>	<u>2,666,179</u>
Capital Assets, Net	<u>\$ 4,779,055</u>	<u>\$ 2,022,873</u>	<u>\$ (1,906,270)</u>	<u>\$ 4,895,658</u>

OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE C – EMPLOYEE THEFT RECEIVABLE

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, \$274,927 in the 2016 fiscal year and \$570,529 in the 2017 fiscal year for an approximate loss amount of \$857,543 reported as Employee Theft Receivable on the statement of net position. The funds in question were from cash reserves the Association had accumulated over the years designated for upgrades and repairs to water towers and other infrastructure improvements and did not affect or include Federal Colonias or Southeastern New Mexico Economic Development District funding.

The underlying documentation and information were turned over to the Federal Bureau of Investigation, Office of the State Auditor and the District Attorney’s office for review and appropriate action, which resulted in a guilty plea to wire fraud charges in May 2018, and an order for restitution for approximately \$816,630.

The Association submitted a notice of claim to its insurance company for \$500,000, the maximum amount of policy coverage, which was received in September 2017, resulting in a net receivable as of June 30, 2018 of \$357,543.

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 compensated absences due to employees as of June 30, 2018 is detailed below.

	Balance	Increases	Decreases	Balance	Payable
	June 30, 2017			June 30, 2018	Within One
					Year
Compensated Absences	<u>\$ 32,483</u>	<u>\$ 15,773</u>	<u>\$ (33,546)</u>	<u>\$ 14,710</u>	<u>\$ 7,755</u>

NOTE E - LONG-TERM DEBT

The Association has the following long-term debt obligations as of June 30, 2018:

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. Net revenues from water sales have been 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 water sales have been pledged for the payment of the loan.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE F - LONG-TERM DEBT (Cont.)

RCAC – 0864-OMDWC-02 - The Association entered into an agreement with the Rural Community Assistance Corporation (RCAC) on October 5, 2016 for engineering and surveys costs for the construction of line extensions and additional capacity for the Association. The original amount of the note was for up to \$31,827 and bearing 5% interest. The Association only utilized approximately \$20,000 of the available funds. One principal payment of the outstanding principal and accrued interest was due on November 1, 2017. The Association pledged net revenues from the water utility system to the payment of the loan.

NMFA - 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 \$22,945 in interest expense and finance charges attributed to long-term obligations.

Long-term debt activity for the year ended June 30, 2018 was as follows:

Obligation	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year	Interest Expense
USDA-RUS 91-02	\$ 380,382	\$ -	\$ (5,143)	\$ 375,239	\$ 5,326	\$ 13,349
NMED-RIP 2012-03	277,770	-	(12,764)	265,006	13,147	8,333
RCAC 0864-OMDWC-02	-	20,000	(20,000)	-	-	1,263
NMFA CIF-2772	<u>25,382</u>	-	<u>(2,986)</u>	<u>22,396</u>	<u>1,493</u>	<u>-</u>
Total Long-term Debt	<u>\$ 683,534</u>	<u>\$ 20,000</u>	<u>\$ (42,893)</u>	<u>\$ 662,641</u>	<u>\$ 19,966</u>	<u>\$ 22,945</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 19,966	\$ 21,116	\$ 41,082
2020	20,550	20,532	41,082
2021	21,152	19,930	41,082
2022	21,774	19,308	41,082
2023	22,415	18,667	41,082
2024-2028	122,433	82,979	205,412
2029-2033	141,823	63,589	205,412
2034-2038	68,777	44,780	113,557
2039-2043	57,516	34,944	92,460
2044-2048	68,499	23,961	92,460
2049-2053	81,578	10,882	92,460
2054	<u>16,158</u>	<u>395</u>	<u>16,553</u>
Totals	<u>\$ 662,641</u>	<u>\$ 361,083</u>	<u>\$ 1,023,724</u>

NOTE G - RETIREE 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, 2018

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. The 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-B.

Benefits Provided. For a description of the benefits provided and recent changes to the benefits see Note D in the PERA audited financial statements for the fiscal year ended June 30, 2017 available at:
<http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/CAFR-2017-Final.pdf>

Contributions. The contribution requirements of defined benefit plan members and the Town 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 FY17 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 46 through 48 of the PERA FY 17 annual audit report. The PERA coverage options that apply to the Association is the General Division.

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, 2017. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2017.

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: municipal general members, municipal police members, municipal fire members, state general members, state police members, and legislative members. 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, 2017.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE H - PERA PENSION PLAN (Cont.)

Only employer contributions for the pay period end dates that fell within the period of July 1, 2016 to June 30, 2017 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2017 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, 2018, the Association reported a liability of \$349,248 for its proportionate share of the net pension liability at June 30, 2017. At June 30, 2017, the Association's proportion was 0.0276%, which was slightly higher than its 0.0270% proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Association recognized PERA Fund - General, pension expense of \$37,987. At June 30, 2017, the Association reported PERA Fund Division - General deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumption	\$ 17,489	\$ 3,919
Changes in Proportion	5,100	20,308
Differences Between Expected and Actual Experience	14,902	19,424
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	31,115	-
Post Measurement Date Employer Contributions	<u>21,336</u>	<u>-</u>
Totals	<u>\$ 89,942</u>	<u>\$ 43,651</u>

For the General Division, \$21,336 is reported as deferred outflows of resources related to pensions resulting from Association contributions subsequent to the measurement date June 30, 2017 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Net Amount
2019	\$ 2,853
2020	25,434
2021	5,761
2022	<u>(9,093)</u>
Totals	<u>\$ 24,955</u>

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, 2016 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, 2017 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, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2016 actuarial valuation.

OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE H - PERA PENSION PLAN (Cont.)

Actuarial Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Open
Amortization Period	Solved for Based on Statutory Rates
Asset Valuation Method	4-Year smoothed Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.51% Annual Rate, Net of Investment Expense
Projected Benefit Payment	100 Years
Payroll Growth	2.75% Annual Rate for first 9 years, then 3.25% annual rate
Projected Salary Increases	2.75% to 14.00% Annual Rate
Included Inflation at	2.25% Annual Rate first 9 years, then 2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables
Experience Study Dates	July 1, 2008 – June 30, 2013 (demographic) July 1, 2010 – June 30, 2016 (economic)

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
Global Equity	43.5%	7.39 %
Risk Reduction & Mitigation	21.5	1.79
Credit Oriented Fixed Income	15.0	5.77
Real Assets to Include Real Estate Equity	<u>20.0</u>	7.35
Totals	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.25% for the first ten years (select period) then 7.75% for all other years (ultimate). The equivalent blended rate of 7.48% will be used to measure the total pension liability. 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 GASBS 67. Therefore, the 7.48% 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 shows 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 (6.51%) or one percentage point higher (8.51%) than the single discount rate.

	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
Proportionate Share of Net Pension Liability	<u>\$ 594,406</u>	<u>\$ 379,248</u>	<u>\$ 200,313</u>

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE H - PERA PENSION PLAN (Cont.)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at: www.pera.state.nm.us/publications.html

Payables to the Pension Plan - At June 30,2018, the Association had no outstanding contributions to the pension plan which is reported within current liabilities on the balance sheet.

NOTE I - 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, 2018 was approximately \$4,486.

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.

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***

Actuarial Valuation Date	6/30/15	6/30/16	6/30/17	6/30/18
Schedules of Proportionate Share of Net Pension Liability				
Proportion of Net Pension Liability	0.0308%	0.0308%	0.0270%	0.0276%
Net Pension Liability	240,273	314,033	431,369	379,248
Annual Covered Payroll	291,263	289,005	239,925	229,242
NPL as Percentage of Covered Payroll	82.49%	108.66%	179.79%	165.44%
Fiduciary Net Position as a Percentage of Total Pension Liability	81.29%	76.99%	69.18%	73.74%
Schedules of Required Contributions				
Contractually Required Contributions	\$ 24,347	\$ 23,888	\$ 23,153	\$ 21,337
Contributions Made	24,347	23,888	23,153	21,337
Contributions as Percentage of Covered Payroll	8.36%	8.27%	9.65%	9.30%

*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, 2018**

Changes of Benefit Terms. The Public Employees Retirement Association of New Mexico (PERA) Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY17 audit available at: <http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/CAFR-2017-Final.pdf>

Changes of Assumptions. PERA Annual Actuarial Valuation as of June 30, 2017 report is available at:
http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2016%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
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)
YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Charges for Services	\$ 1,215,256	\$ 1,215,256	\$ 1,188,474	\$ (26,782)
Late Charges and Service Fees	-	-	40,264	40,264
Rental and Lease Income	-	-	7,704	7,704
Total Operating Revenues	<u>1,215,256</u>	<u>1,215,256</u>	<u>1,236,442</u>	<u>21,186</u>
EXPENDITURES				
Current				
Personnel Services	426,377	426,377	452,099	(25,722)
Utilities	103,500	103,500	95,783	7,717
Maintenance, Materials and Supplies	328,141	328,141	307,288	20,853
Other Expenditures	124,400	124,400	221,236	(96,836)
Depreciation	137,436	137,436	-	137,436
Capital Outlay	<u>-</u>	<u>-</u>	<u>199,800</u>	<u>(199,800)</u>
Total Operating Expenses	<u>1,119,854</u>	<u>1,119,854</u>	<u>1,276,206</u>	<u>(156,352)</u>
Operating Gain	<u>95,402</u>	<u>95,402</u>	<u>(39,764)</u>	<u>(135,166)</u>
NONOPERATING REVENUES (EXPENSES)				
Principal Payments on Debt	-	-	(40,893)	(40,893)
Interest Expense and Administrative Fees	-	-	(22,945)	(22,945)
Employee Theft Insurance Proceeds	-	-	500,000	500,000
Capital Grants	-	-	173,251	173,251
Memberships	-	-	80,200	80,200
Easements and Right of Ways	-	-	82,320	82,320
Loan Proceeds	-	-	20,000	20,000
Interest Income	-	-	598	598
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>792,531</u>	<u>792,531</u>
Net Change in Net Position	95,402	95,402	752,767	657,365
Cash - Beginning of Year	<u>186,105</u>	<u>186,105</u>	<u>186,105</u>	<u>-</u>
Cash - End of Year	<u>\$ 281,507</u>	<u>\$ 281,507</u>	<u>\$ 938,872</u>	<u>\$ 657,365</u>
Reconciliation to GAAP Basis				
Change in Net Position - Budget Basis			\$ 752,767	
Capital Outlay			199,800	
Depreciation			(83,197)	
Loan Proceeds			(20,000)	
Principal Payments			40,893	
Net Changes in Deferred Inflows and Outflows			(68,775)	
Net Changes in Net Pension Liability			52,121	
Employee Theft Insurance Proceeds			(500,000)	
Funds Held in Escrow			25,000	
Change in:				
Accounts Receivable			45,927	
Inventory			74,338	
Accounts Payable			(61,147)	
Accrued Wages			(513)	
Accrued Payroll Tax Liabilities			2,289	
Sales Tax Payable			6,573	
Accrued Vacation			17,773	
Customer Meter Deposits			(22,995)	
Change in Net Position - GAAP Basis			<u>\$ 460,854</u>	

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

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***

Wayne Johnson, 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, 2018, and the related notes to the financial statements, which comprise the Association's basic financial statements, and have issued our report thereon dated September 28, 2018. 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 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 opinions 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 a matter described in the accompanying schedule of findings and responses as item 2018-001 as an item of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978.

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
September 28, 2018

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

2018-001 - Legal Compliance with Budget – Compliance

CONDITION - The Association's actual expenditures exceeded authorized budgetary expenditures by approximately \$156,352.

CRITERIA - Section 6-6-6 NMSA 1978 requires the Association to keep expenditures within the approved budget.

CAUSE - The final budget was not adjusted for the capital outlay expended during the year.

EFFECT - The Association may not have accurate information for planning activities and cash flows in the funds that exceeded the budget.

RECOMMENDATION - The Association should review budget versus actual comparison periodically to ensure that budget adjustments are warranted, approved by Board of Directors and forwarded to DFA for approval.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The current office clerk took over the responsibility for the budget in August after the 2017-2018 fiscal year budget was approved by DFA and was unaware regarding the necessary adjustments needed to keep the Association within the budgeted expenditures. After a discussion regarding the finding, budget procedures will be adjusted to review budget to actual comparisons when the quarterly reports are due. This finding should be resolved when the final budget is due to DFA in July 2019.

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2018**

Finding	Status
2017-001 (2012-001) - Segregation of Duties	Resolved
2017-002 (2016-001) - Internal Control Deficiencies	Resolved
2017-003 (2016-004) - Budgetary Completeness and Accuracy	Resolved
2017-004 – Grant Management	Resolved
2017-005 – PERA Late Remittance	Resolved
2017-006 – Gross Receipts Tax Form Late Remittance	Resolved
2017-007 - Late Submission of Audit Contract and IPA Recommendation	Resolved

**OTIS MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
JUNE 30, 2018**

An entrance conference was held with the Otis Mutual Domestic Water Consumers and Sewage Works Association representatives below on September 26, 2018. The contents of this report were discussed with the representatives below on September 28, 2018. The following individuals were available for the conference:

Otis MDWC & SWA

James Fry, Treasurer
Danny Bass, Board Member

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 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.