

STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2012

(With Independent Auditor's Report Thereon)

FIDEL A. BERNAL, PC
CERTIFIED PUBLIC ACCOUNTANT
ALBUQUERQUE, NEW MEXICO

State of New Mexico
Thoreau Water and Sanitation District

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**State of New Mexico
Thoreau Water and Sanitation District**

Board of Directors

President	James Herman
Vice-President	Bob Marsh
Member	Rex Eby
Member	John Gail
Member	Samson Cowboy

Independent Auditor's Report

Mr. Hector H Balderas
New Mexico State Auditor
and
Members of the Board
Thoreau Water and Sanitation District
Thoreau, New Mexico 87323

We have audited the accompanying financial statements of the business-type activities and the budgetary comparisons of the State of New Mexico, Thoreau Water and Sanitation District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2012. These financial statements are the responsibility of the State of New Mexico, Thoreau Water and Sanitation District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficiently detailed property records to adequately extend our auditing procedures to utility plant in service and related depreciation expense, which represents 47% of the District's assets.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to adequately extend our auditing procedures to utility plant in service and related depreciation expense, or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2012, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above presents fairly, the budgetary comparison for the proprietary fund of the District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The District has omitted the Management's Discussion and Analysis which is required to be presented to supplement the basic financial statements. Such missing information although not a part of the basic financial statements is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the budgetary comparisons. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, consisting of a stylized 'T' followed by a long horizontal stroke that curves upwards at the end.

October 31, 2012

State of New Mexico
Thoreau Water and Sanitation District
Proprietary Fund
Balance Sheet
June 30, 2012

Exhibit - 1

ASSETS

Current assets:

Cash and cash equivalents	\$	456,538
Accounts receivable net of allowance of \$1,511		39,987
Unbilled receivable		11,058
Inventory		6,339
Prepaid assets		1,821

Total current assets		515,743
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Noncurrent assets:

Cash restricted for customer deposits		17,341
Cash restricted for retirement		3,786

Capital assets:

Property, plant and equip		1,536,044
Less accumulated depreciation		(1,057,334)

Total noncurrent assets		499,837
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Total assets	\$	1,015,580
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LIABILITIES

Current liabilities:

Due within one year		
Accounts payable	\$	767
Compensated absences		3,540
Customer deposit payable		17,341
Accrued payroll and liabilities		3,648
Current portion of long-term debt		3,409

Total current liabilities		28,705
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Noncurrent liabilities:

Compensated absences		11,444
Retirement payable		3,451
General long term debt		61,356

Total noncurrent liabilities		76,251
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Total liabilities		104,956
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NET ASSETS

Invested in capital assets net of related debt		413,945
Unrestricted		496,679

Total net assets		910,624
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Total liabilities and net assets	\$	1,015,580
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The notes to the financial statements are an integral part of this statement.

State of New Mexico
Thoreau Water and Sanitation District
Proprietary Fund
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2012

Exhibit-2

Operating revenues:	
Charges for services	\$ 213,545
Miscellaneous Income	70,000
	283,545
Total operating revenues	283,545
Operating expenses:	
Salaries	74,134
Contract labor	2,486
Depreciation	27,825
Materials, supplies and maintenance	28,156
Legal & accounting	6,784
Postage	1,225
Retirement fund contributions	2,436
Taxes	14,165
Utilities	36,578
Insurance	7,372
Lab fees	284
Dues and filing fees	855
Telephone	2,323
Other expenses	1,530
	206,153
Total operating expenses	206,153
Operating income (loss)	77,392
Nonoperating revenues (expenses):	
Grant income	64,877
Interest income	550
Interest expense	(71)
	65,356
Total nonoperating revenues (expenses)	65,356
Change in net assets	142,748
Total net assets - beginning	767,876
Total net assets - ending	\$ 910,624

The notes to the financial statements are an integral part of this statement.

State of New Mexico
Thoreau Water and Sanitation District
Proprietary Fund
Statement of Cash Flows
For the Year ended June 30, 2012

Exhibit 3

Cash flows from operating activities:	
Received from customer services and fees	\$ 280,542
Cash payments to employees	(76,570)
Paid to suppliers for goods and services	(93,385)
Net cash provided (used) by operating activities	<u>110,587</u>
Cash flows from investing activities:	
Investment income	<u>65,356</u>
Net cash provided (used) by investing activities	<u>65,356</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(143,376)</u>
	(25,138)
	61,356
Net cash provided (used) by capital and related financing activities	<u>(107,158)</u>
NET INCREASE (DECREASE)	
CASH AND CASH EQUIVALENTS	68,785
Cash and cash equivalents at July 1, 2011	<u>408,880</u>
Cash and cash equivalents at June 30, 2012	<u>\$ 477,665</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 77,392
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	27,825
Changes in assets and liabilities:	
(increase) decrease in:	
Accounts receivable	(3,003)
Prepaid insurance	479
Unbilled receivable	(324)
Inventory	(292)
(decrease) increase in:	
Accounts payable	245
Payroll & liabilities payable	908
Retirement payable	(2,436)
Compensated absences	6,264
	3,409
Customer deposits	<u>120</u>
Net cash provided (used) by operating activities	<u>\$ 110,587</u>

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements
June 30, 2012

1. Organization and Background

Thoreau Water and Sanitation District (the District) was established under the Laws of 1919, under the provisions of the act now referred to as Chapter 75, Article 1, NMSA 1978. The District operates under the direction of an elected Board of Directors. The Board is required to consist of five members each of which is elected for a period of four years.

The predecessor, Thoreau Mutual Domestic Water Consumers and Sewage Works Association, owned and operated the water and sewage system in the Village of Thoreau from its creation on October 3, 1962. On May 27, 1977, a petition to organize a Thoreau Sanitation District was begun and in 1978 the transfer of the Association to a district was finalized. It is estimated that cash and plant assets of approximately \$240,000 were contributed to the District by McKinley County. These contributions are included in the invested in capital assets.

At the time of the transfer, the District did not and has not refunded memberships paid to the Association.

2. Summary of Significant Accounting Policies

The summary of significant accounting policies of the District is presented to assist in the understanding of the District's financial statements. The financial statements and notes are the representation of Thoreau Water and Sanitation District's management who is responsible for their integrity and objectivity. The financial statements of the District conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's financial statements include all financial information over which the Board of Directors exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based upon the application of these criteria, no component units were included in the financial statements.

a. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements, neither fiduciary funds nor component units that are fiduciary in nature are included. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government uses a proprietary fund to record all of its financial transactions.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2012

2 **Summary of Significant Accounting Policies (cont.)**

a. Measurement focus, basis of accounting and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District enterprise fund are charges to customers for sales and services. Operating expense for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

b. Reporting Entity

The District includes the accounts of all District operations. The criteria for including organizations within the director's reporting entity primarily include the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing arrangements, regardless of whether the District is able to exercise oversight responsibilities. The District is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*.

There were no component units for the District during the fiscal year ended June 30, 2012, and is not a component unit of any other entity.

c. Basis of accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Revenue from grants, entitlements, and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2012

2. Summary of Significant Accounting Policies (cont.)

d. Capital assets (Utility Plant in Service)

Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. The capital assets at stated at cost less accumulated depreciation. Depreciation has been provided over the estimated useful lives using the straight-line method. The District's Policy is to capitalize all disbursements for equipment in excess of \$5,000.

The estimated useful lives assigned to these assets are as follows:

<u>Estimated lives</u>	<u>Years</u>
Buildings	15-35
Water and sewer lines	25
Fences	15
Office equipment	5
Computer Software	3

It is the policy of the District to capitalize the cost of Infrastructure assets (water and sewer lines). Interest incurred during the construction period of major projects is capitalized and depreciated over the estimated lives of the respective assets.

e. Budgets and budgetary accounting

A budget for the Proprietary Fund is prepared by management and approved by the Board of Directors and the State Department of Finance and Administration.

This budget is prepared on time Non-GAAP cash basis, excluding encumbrances, and secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The budget process in time State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year.

Actual expenditures may not exceed the budget on a line item basis, i.e., each budgeted expenditure must be within budgeted amounts. Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a 'series', this may be accomplished with only local Board of Directors approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from State Department of Finance and Administration.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In April or May, the management submits to the Board of Directors a proposed operating budget of the fiscal year commencing the following July. The operating budget includes proposed expenditures and the means of financing them, and has approval by the State Department of Finance and Administration.
2. In May or June, the budget is approved by the Board of Directors.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2012

2. Summary of Significant Accounting Policies (cont.)

e. Budgets and budgetary accounting (continued)

3. The board meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called for.
4. The management is authorized to transfer budgeted amounts between departments within any fund; however, the Board of Directors and the State Department of Finance and Administration must approve revisions that alter the total expenditure of the Proprietary Fund.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget for the Proprietary Fund is adopted on a basis not consistent with generally accepted accounting principles (GAAP). Encumbrances are treated the same way for GAAP purposes and for budget purposes.

The Board of Directors may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending balances. The appropriated budget for the year ended June 30, 2012 had no amendments for the year:

	<u>Original Budget</u>	<u>Final Budget</u>
Proprietary Fund	<u>\$ 282,500</u>	<u>\$ 282,500</u>

f. Inventory

Inventories of materials and supplies are valued at cost (first in, first out). The expense is recognized at the time the individual items are used.

g. Cash

Cash Equivalents

Interest bearing deposits with maturities of 90 days or less are considered cash equivalents in the statement of cash flows. Restricted cash and cash equivalents are included with unrestricted cash and cash equivalents for cash flow reporting purposes.

Deposits and investments

The District'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.

State statutes authorize the investment of the District's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The District is also allowed to invest in United States Government obligations. All funds for the District must follow the above investment policies.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2012

2. Summary of Significant Accounting Policies (cont.)

g. Cash (continued)

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within time geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by time financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States Treasury bills of the same maturity on time day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

Investments for the District are reported at fair value.

h. Estimation

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

i. Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. The District reports expenses related to the use of economic resources.

j. Grants/Loans

The District received a grant and loan of \$681,739 in the current fiscal year from the New Mexico Finance Authority (NMFA). \$613,565 is the grant portion and \$68,174 is the loan portion (see Note 7) to construct a new well.

The District was also, the recipient of a Community Development Block Grant (CDBG) obtained and administered by McKinley County. The CDBG was for the upgrade and rehabilitation of the waste water lagoons. However, the upgrade and rehabilitation of the lagoons did not start till August of 2012.

k. Restricted and Unrestricted Resources

Restricted resources are used for expenses only after unrestricted resources are depleted.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2012

3. Summary of Cash Accounts

Cash is restricted by the amount of \$21,127, representing restrictions for customer deposits and retirements.

At June 30, 2012, the carrying amount of the District's deposits was \$477,665 and the bank balance was \$477,615. Of this balance \$456,774 was covered by federal depository insurance however the remaining \$20,841 was not covered and the District was subject to custodial credit risk (see Findings and Responses 12-1).

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico Office of the State Auditor's requirements in reporting the insured and uninsured portion of deposits:

Depository	Account Name	Type of Account	Bank Balance
US Bank			
	Interest Business Checking	Non-interest bearing checking	\$ 270,841
	Total First Bank		<u>270,841</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 20,841</u>
Wells Fargo			
	Retirement Fund I	Savings	\$ 3,786
	Total Savings Wells Fargo		<u>3,786</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 0</u>
Wells Fargo			
	Deposit Account	Non-interest bearing checking	17,341
Wells Fargo			
	Deposit Account	Non-interest bearing checking	116,417
	Total Wells Fargo Bank		<u>133,758</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 0</u>
Pinnacle Bank			
	Business MMA Account	Savings	\$ 69,230
	Total Pinnacle Bank		<u>69,230</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 0</u>
	Total cash in bank		\$ 477,615
	Add cash on hand		50
	Add outstanding deposits		0
	Less outstanding checks		0
	Reconciled cash balance		<u>\$ 477,665</u>

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2012

3. Summary of Cash Accounts-continued

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of time State of New Mexico. According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the District. Time deposits, savings deposits and interest bearing now accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

4. Accounts Receivable

The accounts receivable (customer receivables) reported on the Statement of Net Assets are as follows:

Accounts receivable	\$ 41,498
Estimated uncollectible	<u>(1,511)</u>
Total receivables	<u>\$ 39,987</u>

5. Pension Plan

The District established a defined contribution pension (retirement) plan during the fiscal year ended June 30, 1985. The plan does not appear to be have been properly established or funded. All of the District employees are covered under the plan. Accordingly, all salaries are covered by the plan.

The plan is merely a savings account setup to record the District's contribution for the employees. Currently the amount in this account is \$3,786 earning interest of .04% (see Comments and Recommendations 07-2).

Retirement eligibility

After one year of employment, all permanent employees of the District are eligible to participate in the plan. Vesting is on a graduated basis; 10% the first year, 20% the second, 50% the third, 75% the fourth and 100% the fifth year. The Board has resolved to contribute 6% of an employee's salary in a segregated savings account for each participating employee. The pension plan is funded monthly. Upon retirement, termination (except for cause), or 50% disability, the employee is entitled to receive the amount in his or her savings account including the interest earned.

6. Changes in Utility Plant in Service

A summary of changes in the utility plant in service for the year ended June 30, 2012, are as follows:

	Balance <u>06-30-11</u>	Additions	Deletions	Balance <u>06-30-12</u>
Business type activities:				
Capital assets, not being depreciated:				
Land	\$ 153,500	\$ 0	\$ 0	\$ 153,500
Capital assets, being depreciated:				
Building	514,543	0	0	514,543
Water and sewer lines	460,656	0	0	460,656
Machinery and equipment	128,452	10,325	0	138,777
New well in progress	0	133,051	0	133,051
Land improvements	126,924	0	0	126,924
Furniture & equipment	<u>8,593</u>	<u>0</u>	<u>0</u>	<u>8,593</u>
	1,239,168	143,376	0	1,382,544
Less accumulated depreciation	<u>(1,029,509)</u>	<u>(27,825)</u>	<u>0</u>	<u>(1,057,334)</u>
Total capital assets, being depreciated, net	<u>209,659</u>	<u>115,551</u>	<u>0</u>	<u>325,210</u>
Business type activities capital assets, net	<u>\$ 363,159</u>	<u>\$115,551</u>	<u>\$ 0</u>	<u>\$ 478,710</u>

Depreciation expense for the year ended June 30, 2012 totaled \$ 27,825.

**State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2012**

7. Long Term Debt

The long-term debt is comprised of the District's portion of a grant received from the New Mexico Finance Authority in the current fiscal year. The grant totaled \$681,739 and the district is to pay 10% totaling \$68,741 at a blended interest rate of 0.25% for 20 years. Long-term debt activity for the year ended June 30, 2012 was as follows:

	Balance July 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2012</u>	Amounts Due in <u>One Year</u>
NM Finance Authority:					
228-WTB	\$ <u>0</u>	\$ 68,174	\$ 3,409	\$ 64,765	\$ 3,409
Total	\$ <u>0</u>	\$ 68,174	\$ 3,409	\$ 64,765	\$ 3,409

The annual requirements to amortized debt outstanding as of June 30, 2012, including interest payments of \$ 1,690, are as follows:

<u>Year Ending</u>	State of N.M. Finance	
	<u>Authority</u>	<u>Total</u>
2013	\$ 3,409	\$ 3,409
2014	3,409	3,409
2015	3,409	3,409
2016	3,409	3,409
2017	3,409	3,409
Thereafter	<u>47,720</u>	<u>47,720</u>
	<u>\$ 64,765</u>	<u>\$ 64,765</u>

8. Compensated Absences

Accumulated unpaid vacation time is accrued in the fiscal year when earned. Compensation for absences due to illness is paid at the discretion of the Board of Directors. The amount paid for compensated absence was \$525. A summary of changes in compensated absences follows:

	Balance <u>06-30-11</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>06-30-12</u>	Amount Due within <u>One Year</u>
Compensated Absences	\$ <u>8,720</u>	\$ 6,789	\$ 525	\$ 14,984	\$ 3,540

Reduction of debt includes decreases in compensated absences which are not included as expenditures in the operating budget.

9. Risk and Related insurance data

The District is exposed to various risks of loss related to: general and automobile liabilities, including civil rights (torts); theft of, damage to, and destruction of district property assets; errors; injuries to employees; and natural disasters, all of which are covered by commercial insurance. There has been no significant reduction in insurance coverage.

10. Commitments and Contingent Liabilities

In the event that waste water in the lagoons contaminates the local ground water, the District has 24 hours to notify the New Mexico Environmental Department (NMED). If the District fails to provide the proper information and submit a corrective action plan within 15 days, The NMED may assess civil penalties up to \$15,000 per day.

State of New Mexico
Thoreau Water and Sanitation District
Proprietary Fund
Schedule of Revenues, Expenses Budget and Actual (non-GAAP Budgetary Basis)
For the year ended June 30, 2012

Exhibit 4

	Original Approved Budget	Final Approved Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water and Sewer Income	\$ 282,740	\$ 282,740	\$ 283,250	\$ 510
Total revenues	282,740	282,740	283,250	510
Expenses:				
Salaries and wages	69,000	69,000	67,280	1,720
Contract labor	6,500	6,500	2,486	4,014
Materials, supplies, & maintenance	85,000	85,000	38,589	46,411
Legal & accounting	8,500	8,500	6,784	1,716
Retirement plan	3,500	3,500	2,436	1,064
Taxes & Insurance	40,000	40,000	21,146	18,854
Utilities	40,000	40,000	36,578	3,422
Other - Misc	30,000	30,000	9,638	20,362
Total operating expenses	282,500	282,500	184,937	97,563
Non-operating revenues and expenses:				
Investment income			550	550
Grant			64,877	64,877
Grant expenses				-
Reserve Account	(240)	(240)		240
Total non-operating revenue & expenses	(240)	(240)	65,427	65,667
Excess (deficiency) of revenues and other sources over expenses and other uses	-	-	163,740	\$ 163,740
Prior year cash balance required to balance the budget	\$ -	\$ -		

RECONCILIATION TO GAAP:

Depreciation	(27,825)
Accounts receivable	296
Inventory	257
Prepaid Insurance	(479)
Capital Outlay	10,325
Accounts payable and accrued expenses	(7,047)
Note payments	3,481
Change in Net Assets (Exhibit 2)	\$ 142,748

The notes to the financial statements are an integral part of this statement.

**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*
(No Material Weaknesses Identified; Significant Deficiencies and Reportable Instances of
Noncompliance, and Other Matters Identified)**

Hector H. Balderas,
New Mexico State Auditor
And
Members of the Board of Directors
Thoreau Water and Sanitation District
Thoreau, New Mexico

We have audited the financial statements of the business-type activities and the budget comparison presented as supplemental information of Thoreau Water and Sanitation District (the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying (*schedule of findings and responses*) that we consider to be significant deficiencies in internal control over financial reporting, listed as items 07-1, 07-3, 08-1 and 12-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 07-2, 07-3, 12-1 and 12-2.

The District's responses to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, the New Mexico State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line and a diagonal stroke.

October 31, 2012

**State of New Mexico
Thoreau Water and Sanitation District
Summary of Prior Year Audit Findings
June 30, 2012**

Prior Year Audit Findings

Current Status

07-1	Capital Assets	Repeated in current year
07-2	Defined Contribution Pension Plan	Repeated in current year
07-3	Internal control structure does not allow for adequate segregation of duties	Repeated in current year
08-1	Auditor Preparation of Financial Statements	Repeated in current year

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses
June 30, 2012

CURRENT YEAR FINDINGS

12-1 Bank Balance (Significant deficiency)

Condition:

The balance in one non-interest bearing checking account was over \$250,000 at year end by \$20,841. The institution is insured by FDIC however, their coverage is limited to a maximum of \$250,000 per account per customer.

Criteria:

To insure that the assets of the organization are properly protected from loss the balance in any one account at any one financial institution should not exceed \$250,000 at any time. An organization can comply with State Statutes by having the bank pledge securities of at least 50% based upon credit worthiness to secure deposits over \$250,000. (6-10-16 to 6-10-19 NMSA 1978)

Cause:

The District was not aware that the balance in the account would exceed \$250,000 at year end until after the books were closed for the period.

Effect:

The possibility that a financial institution being declared insolvent is a very real threat in the present economic condition in the U.S., thus if the institution where the funds are kept becomes insolvent, the FDIC only insures an account up to a limit of \$250,000 maximum so any amount in excess of \$250,000 is at risk of being lost because it is not insured.

Recommendation:

We recommend that another account be established at another institution so as the balance in the checking account can be kept under the insured limit of the FDIC, or some other safeguards be established to minimize the risk of loss to the organization for amounts over the uninsured amount of the account.

Agency Response:

Concur: The Board concurs with the Auditor's recommendation and will take steps to correct the above finding.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2012

12-2 Audit Report (Other)

Condition:

The audit firm did not submit the audit report for the year ended June 30, 2012, by the due date for the District.

Criteria:

The New Mexico State Auditor rules require that Special District audit reports be submitted by December 1st of each year. (SAO Rule 2.2.2.9 A (1) (d))

Cause:

The District submitted the audit report on November 29, 2012. However, when the State Auditor's Office reviewed the audit report on or around December 12, 2012, they found the Auditor did not apply the current year State Auditor's Updates to the Independent Auditor's Report. The result of this caused the audit report to be rejected and become late.

Effect:

The District is not in compliance with the New Mexico State Auditor Rules and Regulations.

Recommendation:

The Auditor needs to ensure that all future audit reports are up to date and filed in a timely manner.

Agency Response:

Concur with the Auditor's recommendation.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2012

08-1 Auditor Preparation of Financial Statements (Significant deficiency & Other)

Condition:

The District does not have controls over the preparation of the financial statements which would prevent or detect a misstatement in the financial statements. The District's employees and management lack the training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements.

Criteria:

A system of internal control over financial reporting includes controls over financial statement preparation (including footnote disclosures). Employees and management need to have training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements. (SAO Rule 2.2.2.8.J.(4) and SAS 112)

Cause:

The auditor prepared the audited financial statements (including footnote disclosures) because the District's employees and management lack the proper training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements.

Effect:

The financial statements (including footnotes) could have misstatements that are not discovered on a timely basis.

Recommendation:

The District should adopt policies and procedures for controls over financial statement preparation (including footnotes). Also the District should invest in its employees and management so they may receive the proper training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements.

Agency Response:

The District will consider adopting policies and procedures for controls over financial statement preparation (including footnotes).

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2012

07-1 Capital Assets (Significant deficiency)

Condition:

The District does not maintain a historical listing of capital assets by type and location, i.e.: buildings, vehicles, furniture and fixtures.

Criteria:

Sound accounting and control procedures require that detailed listings of assets be maintained to properly account for and safeguard all the assets of the District (12-6-10 NMSA 1978 and regulation 2.20.1.16 NMAC).

Cause:

The current administration inherited the financial records in the state they are now in. The predecessor, Thoreau Mutual Domestic Water Consumers and Sewage Works Association, owned and operated the water and sewage system in the Village of Thoreau from its creation on October 3, 1962. On May 27, 1977, a petition to organize a Thoreau Sanitation District was begun and in 1978 the transfer of the Association to a district was finalized. It is estimated that cash and plant assets of approximately \$240,000 were contributed to the District by McKinley County.

Effect:

Without the accounting and control procedures over the assets acquired there is the possibility that assets are not being accounted for properly on the financial records and there is the possibility that assets could be misplaced, lost or stolen.

Recommendation:

All assets should be properly accounted for and should be documented on a schedule of property, plant and equipment. The detailed property, plant and equipment listing should be reconciled to the general ledger on a periodic basis.

Agency Response:

Concur: The Board concurs with the Auditor's recommendation and will take steps to correct the above finding. Since the organization inherited the financial records in the condition that they are in, it will seek alternatives to establish beginning balances in the capital asset accounts.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2012

07-2 Defined Contribution Pension Plan (Other)

Condition:

The District established a defined contribution pension (retirement) plan during the fiscal year ended June 30, 1985. The plan does not appear to have been properly established or funded.

Criteria:

Although advance IRS approval isn't required, it's desirable and customary to seek it by requesting a determination letter on special forms issued by IRS. Instead of establishing a plan on its own, an employer can adopt a qualified plan using an IRS-approved master or prototype plan prepared and sponsored by trade or professional associations, banks, insurance companies or regulated investment companies. There are strict rules for funding and control over the funds contributed to the plan.

Cause:

The current administration inherited the plan as it is now established, which they thought was properly established and was being funded correctly.

Effect:

Without a proper defined benefit plan in place the district could face substantial penalties imposed by the IRS.

Recommendation:

We recommend that the District take steps to correct the plan.

Agency Response:

Concur: The Board concurs with the Auditor's recommendation and will take steps to correct the above finding. Since the current administration inherited the plan as it is now established, it will take steps to correct plan.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2012

07-3 Internal control structure does not allow for adequate segregation of duties (Significant deficiency and other)

Condition:

District internal control related to financial reporting lacks segregation of duties between person receiving money and person recording the daily transactions.

Criteria:

Segregation of duties is part sound internal control structure.

Cause:

The district lacks the personnel to segregate duties. So the District's management has accepted the degree of risk associated with a known condition because of cost.

Effect:

Lack of segregation of duties may allow overrides of internal control to the detriment of the overall objectives of the system.

Recommendation:

We recommend that the District re-evaluate their internal control environment and/or appoint an audit committee to redesign internal control operations, in order to safeguard the District's assets.

Agency Response:

After a review and discussion in relation to the segregation of duties between receiving money and recording the daily transactions, the Board agreed that at this time with limited funds available for employing extra employees is beyond the District's means. We will continue to review and look at options so the District may in the future be able to improve in the financial internal control.

State of New Mexico
Thoreau Water and Sanitation District
Other Disclosures
June 30, 2012

Exit Conference

An exit conference was held at Thoreau Water and Sanitation District on October 31, 2012:

Representing Thoreau Water and Sanitation District were:

Rex Eby	Vice-President
Sherry Botkin	Office Manager

Representing the firm of Fidel A. Bernal, P.C. was:

Fidel A. Bernal, CPA

Report Drafting

The financial statements, accompanying notes, and independent auditor's reports were drafted by Fidel A. Bernal, P.C.; however, maintaining the audited books and records is the responsibility of management. Accordingly, management is responsible for ensuring that these books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.