

STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013

(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	Patricia Kollas
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

Report on Financial Statements

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, 2013, and the related notes to the financial statements 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, as defined by the Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2013, 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

We were unable to obtain sufficiently detailed historical property records to adequately extend our auditing procedures to all utility plant in service and related depreciation expenses, the historical portion represents 5% of the District's assets.

Opinion

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, 2013, 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.

Other Matters

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013, 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* in considered the Districts' internal control over financial reporting and compliance.



Albuquerque, New Mexico
November 1, 2013

State of New Mexico
Thoreau Water and Sanitation District
Proprietary Fund
Balance Sheet
June 30, 2013

Exhibit-1

ASSETS

Current assets:

Cash and cash equivalents	\$	422,030
Accounts receivable net of allowance of \$4,671		33,926
Unbilled receivable		9,355
Inventory		6,941
Prepaid assets		2,099
		474,351

Noncurrent assets:

Cash restricted for customer deposits		17,267
Cash restricted for retirement		6,353
Capital assets:		
Property, plant and equip		2,391,973
Less accumulated depreciation		(1,100,920)
		1,314,673

Total noncurrent assets

Total assets

\$ 1,789,024

LIABILITIES

Current liabilities:

Due within one year		
Accounts payable	\$	398
Compensated absences		3,540
Customer deposit payable		17,267
Accrued payroll and liabilities		3,596
Current portion of long-term debt		15,465
		40,266

Total current liabilities

Noncurrent liabilities:

Compensated absences		13,188
Retirement payable		6,015
General long term debt		295,617
		314,820

Total noncurrent liabilities

Total liabilities

355,086

NET POSITION

Invested in capital assetss net of related debt		979,971
Unrestricted		453,967
		1,433,938

Total net position

Total liabilities and net position

\$ 1,789,024

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 Fund Net Position
For The Year Ended June 30, 2013

Exhibit-2

Operating revenues:	
Charges for services	\$ 197,818
Miscellaneous Income	1,505
	199,323
Operating expenses:	
Salaries	72,624
Contract labor	3,290
Depreciation	43,586
Materials, supplies and maintenance	29,172
Legal & accounting	5,179
Postage	1,378
Retirement fund contributions	2,564
Taxes	16,000
Utilities	35,079
Insurance	7,657
Lab fees	87
Dues and filing fees	4,989
Telephone	2,558
Other expenses	698
	224,861
Operating income (loss)	(25,538)
Nonoperating revenues (expenses):	
Grant income	548,688
Interest income	528
Interest expense	(364)
	548,852
Change in net assets	523,314
Total net position - beginning	910,624
Total net position - ending	\$ 1,433,938

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, 2013

Exhibit 3

Cash flows from operating activities:	
Received from customer services and fees	\$ 205,384
Cash payments to employees	(70,060)
Paid to suppliers for goods and services	(103,170)
Net cash provided (used) by operating activities	32,154
Cash flows from investing activities:	
Grants	545,279
Net interest income	528
Net cash provided (used) by investing activities	545,807
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(855,929)
Financing debt	246,317
Interest expense	(364)
Net cash provided (used) by capital and related financing activities	(609,976)
NET INCREASE (DECREASE)	
CASH AND CASH EQUIVALENTS	(32,015)
Cash and cash equivalents at July 1, 2012	477,665
Cash and cash equivalents at June 30, 2013	\$ 445,650
RECONCILIATION OF OPERATING INCOME (LOSS) TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (25,538)
Adjustment to reconcile operating income (loss)	
to net cash provided by operating activities:	
Depreciation	43,586
Changes in assets and liabilities:	
(increase) decrease in:	
Accounts receivable	6,061
Prepaid insurance	(278)
Unbilled receivable	1,703
Inventory	(602)
(decrease) increase in:	
Accounts payable	(369)
Payroll & liabilities payable	(52)
Retirement payable	2,564
Compensated absences	1,744
Note payable-current portion	3,409
Customer deposits	(74)
Net cash provided (used) by operating activities	\$ 32,154

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

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements
June 30, 2013

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 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.

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.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2013

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

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

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, 2013, 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, 2013

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, 2013

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, 2013 had no amendments for the year:

	<u>Original Budget</u>	<u>Final Budget</u>
Proprietary Fund	<u>\$ 299,311</u>	<u>\$ 299,311</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, 2013

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 prior 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. In the prior fiscal year the District used a portion of the grant and in the current fiscal year consumed the rest of the grant. The District had to take out an additional loan from NMFA to complete the well project.

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, 2013

3. Summary of Cash Accounts

Cash is restricted by the amount of \$23,620, representing restrictions for customer deposits and retirements.

At June 30, 2013, the carrying amount of the District's deposits was \$445,650 and the bank balance was \$445,650. Of this balance \$445,650 was covered by federal depository insurance. The District was not subject to custodial credit risk.

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	\$ 233,314
	Total First Bank		<u>233,314</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 0</u>
Wells Fargo	Retirement Fund I	Savings	\$ 6,353
	Total Savings Wells Fargo		<u>6,353</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 0</u>
Wells Fargo	Deposit Account	Non-interest bearing checking	17,267
Wells Fargo	Deposit Account	Non-interest bearing checking	119,401
	Total Wells Fargo Bank		<u>136,668</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 0</u>
Pinnacle Bank	Business MMA Account	Savings	\$ 69,265
	Total Pinnacle Bank		<u>69,265</u>
	Less: FDIC coverage		250,000
	Total not federally insured		<u>\$ 0</u>
	Total cash in bank		\$ 445,600
	Add cash on hand		50
	Add outstanding deposits		0
	Less outstanding checks		0
	Reconciled cash balance		<u>\$ 445,650</u>

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2013

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 the 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	\$ 38,597
Estimated uncollectible	<u>(4,671)</u>
Total receivables	<u>\$ 33,926</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 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 \$6,353 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, 2013, are as follows:

	<u>Balance</u> <u>06-30-12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06-30-13</u>
Business type activities:				
Capital assets, not being depreciated:				
Land	\$ 153,500	\$ 0	\$ 0	\$ 153,500
Capital assets, being depreciated:				
Building	514,543	938,980	0	1,453,523
Water and sewer lines	460,656	0	0	460,656
Machinery and equipment	138,777	0	0	138,777
New well in progress	133,051	0	133,051	0
Land improvements	126,924	50,000	0	176,924
Furniture & equipment	<u>8,593</u>	<u>0</u>	<u>0</u>	<u>8,593</u>
	1,382,544	988,980	133,051	2,238,473
Less accumulated depreciation	<u>(1,057,334)</u>	<u>(43,586)</u>	<u>0</u>	<u>(1,100,920)</u>
Total capital assets, being depreciated, net	<u>325,210</u>	<u>945,394</u>	<u>133,051</u>	<u>1,137,553</u>
Business type activities capital assets, net	<u>\$ 478,710</u>	<u>\$945,394</u>	<u>\$133,051</u>	<u>\$ 1,291,053</u>

Depreciation expense for the year ended June 30, 2013 totaled \$ 43,586.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2013

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. The District received a second loan from the New Mexico Finance Authority in the current fiscal year. The loan totaled \$257,241 at a blended interest rate of 0.25% for 20 years. Long-term debt activity for the year ended June 30, 2013 was as follows:

	Balance July 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2013</u>	Amounts Due in <u>One Year</u>
NM Finance Authority:					
228-WTB	\$ 64,765	\$ 0	\$ 3,409	\$ 61,356	\$ 3,409
THOREAU2	<u>0</u>	<u>257,241</u>	<u>7,515</u>	<u>249,726</u>	<u>12,056</u>
Total	<u>\$ 64,765</u>	<u>\$ 257,241</u>	<u>\$ 10,924</u>	<u>\$ 311,082</u>	<u>\$ 15,465</u>

The annual requirements to amortized debt outstanding as of June 30, 2013, including interest payments of \$ 2,121, are as follows:

	State of N.M. Finance Authority		
<u>Year Ending</u>	<u>228-WTB</u>	<u>THOREAU2</u>	<u>Total</u>
2014	\$ 3,409	\$ 12,056	\$ 15,465
2015	3,409	13,214	16,623
2016	3,409	13,201	16,610
2017	3,409	13,463	16,872
2018	3,409	13,257	16,666
Thereafter	<u>44,311</u>	<u>184,535</u>	<u>228,846</u>
	<u>\$ 61,356</u>	<u>\$ 249,726</u>	<u>\$ 311,082</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			Balance	Amount
	<u>06-30-12</u>	<u>Increases</u>	<u>Decreases</u>	<u>06-30-13</u>	<u>Due within</u>
					<u>One Year</u>
Compensated Absences	<u>\$ 14,984</u>	<u>\$ 3,540</u>	<u>\$ 1,796</u>	<u>\$ 16,728</u>	<u>\$ 3,540</u>

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, 2013

Exhibit 4

	Original Approved Budget	Final Approved Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water and Sewer Income	\$ 299,311	\$ 299,311	\$ 207,213	\$ (92,098)
Total revenues	299,311	299,311	207,213	(92,098)
Expenses:				
Salaries and wages	85,000	85,000	70,821	14,179
Contract labor	6,500	6,500	3,290	3,210
Materials, supplies, and maintenance	80,000	75,800	29,912	45,888
Legal and accounting	8,500	8,500	5,179	3,321
Retirement plan	4,000	4,000	2,564	1,436
Taxes and insurance	45,000	45,000	23,205	21,795
Utilities	40,000	40,000	35,079	4,921
New Mexico Finance Authority	3,571	7,771	7,717	54
Other - Misc	26,500	26,500	9,941	16,559
Total operating expenses	299,071	299,071	187,708	111,363
Non-operating revenues and expenses:				
Investment income			528	528
Grant			-	-
Grant expenses			-	-
Reserve Account	-	-	-	-
Total non-operating revenue & expenses	-	-	528	528
Excess (deficiency) of revenues and other sources over expenses and other uses	240	240	20,032	\$ 19,792
Prior year cash balance required to balance the budget	\$ (240)	\$ (240)		
 <u>RECONCILIATION TO GAAP:</u>				
Depreciation			(43,586)	
Accounts receivable			(7,889)	
Inventory			740	
Prepaid Insurance			278	
Capital Outlay			548,688	
Accounts payable and accrued expenses			(2,303)	
Note payments			7,353	
Change in Net Assets (Exhibit 2)			\$ 523,313	

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, in accordance with the 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 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, 2013, and the related notes to the financial statements, which collectively comprise the Districts' basic financial statements and have issued our report thereon dated November 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered the District's internal control over financial reporting to determine the auditing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control described in the accompanying (*schedule of findings and responses*) that we consider to be significant deficiencies listed as items 07-1, 07-3, and 08-1.

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, and 07-3.

The Districts Responses to Findings

The District's responses to the finding identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subject 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico
November 1, 2013

State of New Mexico
Thoreau Water and Sanitation District
Summary of Prior Year Audit Findings
June 30, 2013

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
12-1	Bank Balance	Resolved
12-2	Audit Report	Resolved

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses
June 30, 2013

CURRENT YEAR FINDINGS

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, 2013

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, 2013

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 be 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, 2013

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, 2013**

Exit Conference

An exit conference was held at Thoreau Water and Sanitation District on November 1, 2013:

Representing Thoreau Water and Sanitation District were:

James Herman	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.