

STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

(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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June 30, 2016**

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**State of New Mexico
Thoreau Water and Sanitation District
June 30, 2016**

Board of Directors

President	James Herman
Vice-President	Rex Eby
Member	Patricia Kollas
Member	Donald McDonald
Member	Vacant

Management

Office Manager	Sherry Botkin
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Independent Auditor's Report

Tim Keller,
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, 2016, 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, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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.

Opinion

In our opinion, 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, 2016, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

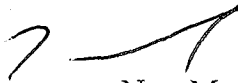
Our audit was conducted for the purpose of forming opinions on the District's financial statements and the budgetary comparisons. The schedule of vendors is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other schedules required by Section 2.2.2 NMAC] are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole

The Schedule of Vendors has not been subjected to the auditing procedures applied in the audit of the basic financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, 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
December 2, 2016

State of New Mexico
Thoreau Water and Sanitation District
Proprietary Fund
Statement of Net Position
June 30, 2016

Exhibit-1

Current assets:	
Cash and cash equivalents	\$ 379,041
Accounts receivable net of allowance of \$6,834	38,619
Unbilled receivable	10,825
Inventory	7,134
Other Assets	100
Prepaid assets	1,905
Total current assets	437,624
Noncurrent assets:	
Cash restricted for customer deposits	17,392
Cash restricted for retirement	14,055
Capital assets:	
Property, plant and equip	2,379,581
Less accumulated depreciation	(1,190,602)
Total noncurrent assets	1,220,426
Total assets	\$ 1,658,050
LIABILITIES	
Current liabilities:	
Due within one year	
Accounts payable	\$ 1,731
Compensated absences	3,540
Customer deposit payable	17,392
Accrued payroll and liabilities	4,616
Current portion of long-term debt	16,872
Total current liabilities	44,151
Noncurrent liabilities:	
Compensated absences	16,676
Retirement payable	13,708
General long term debt	244,412
Total noncurrent liabilities	274,796
Total liabilities	318,947
NET POSITION	
Invested in capital assets net of related debt	927,695
Unrestricted	411,408
Total net position	1,339,103
Total liabilities and net position	\$ 1,658,050

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

State of New Mexico
Thoreau Water and Sanitation District
Statement of Revenue, Expenses, and Changes in Net Position
Proprietary Fund
For The Year Ended June 30, 2016

Exhibit-2

Operating revenues:	
Charges for services	\$ 240,904
Miscellaneous Income	341
	241,245
Total operating revenues	241,245
Operating expenses:	
Salaries	70,973
Contract labor	3,330
Depreciation	52,693
Materials, supplies and maintenance	38,697
Legal & accounting	4,116
Postage	1,371
Retirement fund contributions	2,564
Taxes	14,883
Utilities	41,312
Insurance	7,577
Lab fees	2,135
Dues and filing fees	601
Telephone	3,514
Other expenses	10,565
	254,331
Total operating expenses	254,331
Operating income (loss)	(13,086)
Nonoperating revenues (expenses):	
Interest income	292
Interest expense	(267)
	25
Total nonoperating revenues (expenses)	25
Change in net position	(13,061)
Total net position - beginning	1,352,164
Total net position - ending	\$ 1,339,103

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, 2016

Exhibit 3

Cash flows from operating activities:	
Received from customer services and fees	\$ 236,627
Cash payments to employees	(73,537)
Paid to suppliers for goods and services	(125,876)
Net cash provided (used) by operating activities	37,214
Cash flows from investing activities:	
Net interest income	292
Net cash provided (used) by investing activities	292
Cash flows from capital and related financing activities:	
Acquisition of capital assets	
Sale of capital asset	
Financing debt	(16,610)
Interest expense	(267)
Net cash provided (used) by capital and related financing activities	(16,877)
NET INCREASE (DECREASE)	
CASH AND CASH EQUIVALENTS	20,629
Cash and cash equivalents at July 1, 2015	389,859
Cash and cash equivalents at June 30, 2016	\$ 410,488
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (13,086)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	52,693
Changes in assets and liabilities:	
(increase) decrease in:	
Accounts receivable	(4,618)
Prepaid insurance	(100)
Unbilled receivable	(812)
Inventory	(539)
(decrease) increase in:	
Accounts payable	809
Retirement payable	2,564
Compensated absences	152
Customer deposits	151
Net cash provided (used) by operating activities	\$ 37,214

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, 2016

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.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2016

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, 2016, 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, 2016

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, 2016

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, 2016 had no amendments for the year:

	Original Budget	Final Budget
Proprietary Fund	\$ 299,340	\$ 299,340

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, 2016

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. 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, 2016

3. Summary of Cash Accounts

Cash is restricted by the amount of \$31,447, representing restrictions for customer deposits and retirements.

At June 30, 2016, the carrying amount of the District's deposits was \$410,488 and the bank balance was \$410,516. Of this balance \$352,264 was covered by federal depository insurance however the remaining \$52,252 was not covered and the District was subject to custodial credit risk (see Findings and Responses 2016-001).

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	\$ 308,252
	Total First Bank		<u>308,252</u>
	Less: FDIC coverage		<u>250,000</u>
	Total not federally insured		<u>\$ 58,252</u>
Wells Fargo	Retirement Fund I	Savings	\$ 14,055
	Total Savings Wells Fargo		<u>14,055</u>
	Less: FDIC coverage		<u>14,055</u>
	Total not federally insured		<u>\$ 0</u>
Wells Fargo	Deposit Account	Non-interest bearing checking	17,470
	Total Wells Fargo Bank		<u>17,470</u>
	Less: FDIC coverage		<u>17,470</u>
	Total not federally insured		<u>\$ 0</u>
Pinnacle Bank	Business MMA Account	Savings	\$ 70,739
	Total Pinnacle Bank		<u>70,739</u>
	Less: FDIC coverage		<u>70,739</u>
	Total not federally insured		<u>\$ 0</u>
	Total cash in bank		\$ 410,516
	Add cash on hand		50
	Add outstanding deposits		0
	Less outstanding checks		(78)
	Reconciled cash balance		<u>\$ 410,488</u>

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2016

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	\$ 45,453
Estimated uncollectible	<u>(6,834)</u>
Total receivables	<u>\$ 38,619</u>

The unbilled receivable of \$10,825 is due to the timing of billing, the District billing cycle is mid-month to mid-month.

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 \$14,055 earning interest of .04% (see Comments and Recommendations 2007-002).

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, 2016, are as follows:

	<u>Balance</u> <u>06-30-15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06-30-16</u>
Business type activities:				
Capital assets, not being depreciated:				
Land	\$ 153,500	\$ 0	\$ 0	\$ 153,500
Capital assets, being depreciated:				
Building	1,484,843	0	0	1,484,843
Water and sewer lines	460,656	0	0	460,656
Machinery and equipment	96,557	0	0	96,557
Land improvements	176,924	0	0	176,924
Furniture & equipment	<u>7,101</u>	<u>0</u>	<u>0</u>	<u>7,101</u>
	2,226,081	0	0	2,226,081
Less accumulated depreciation	<u>(1,137,909)</u>	<u>(52,693)</u>	<u>0</u>	<u>(1,190,602)</u>
Total capital assets,				
being depreciated, net	<u>1,088,172</u>	<u>(52,693)</u>	<u>0</u>	<u>1,035,479</u>
Business type activities				
capital assets, net	<u>\$ 1,241,672</u>	<u>\$ (52,693)</u>	<u>\$ 0</u>	<u>\$ 1,188,979</u>

Depreciation expense for the year ended June 30, 2016 totaled \$ 52,693.

State of New Mexico
Thoreau Water and Sanitation District
Notes to Basic Financial Statements-continued
June 30, 2016

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 on October 28, 2011. The grant totaled \$681,739 and the district is to pay 10% totaling \$68,174 at a blended interest rate of 0.25% for 20 years. The District received a second loan from the New Mexico Finance Authority on October 19, 2012. 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, 2016 was as follows:

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2016</u>	Amounts Due in <u>One Year</u>
NM Finance Authority:					
228-WTB	\$ 54,538	\$ 0	\$ 3,409	\$ 51,129	\$ 3,409
THOREAU2	<u>223,356</u>	<u>0</u>	<u>13,201</u>	<u>210,155</u>	<u>13,463</u>
Total	<u>\$ 277,894</u>	<u>\$ 0</u>	<u>\$ 16,610</u>	<u>\$ 261,284</u>	<u>\$ 16,872</u>

The annual requirements to amortized debt outstanding as of June 30, 2016, including interest payments of \$ 1,847, are as follows:

<u>Year Ending</u>	State of N.M. Finance Authority		
	<u>228-WTB</u>	<u>THOREAU2</u>	<u>Total</u>
2017	\$ 3,409	\$ 13,463	\$ 16,872
2018	3,409	13,257	16,666
2019	3,409	13,260	16,669
2020	3,409	13,260	16,669
2021	3,409	13,260	16,669
Thereafter	<u>34,084</u>	<u>143,655</u>	<u>177,739</u>
	<u>\$ 51,129</u>	<u>\$ 210,155</u>	<u>\$ 261,284</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 \$3,388. A summary of changes in compensated absences follows:

	Balance <u>06-30-15</u>	<u>Increases</u>	<u>Decreases</u>	Amount Balance Due within <u>06-30-16</u>	<u>One Year</u>
Compensated Absences	<u>\$ 20,064</u>	<u>\$ 3,540</u>	<u>\$ (3,388)</u>	<u>\$ 20,216</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

Exhibit 4

Schedule of Revenues, Expenses Budget and Actual (non-GAAP Budgetary Basis)
For the year ended June 30, 2016

	Original Approved Budget	Final Approved Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water and Sewer Income	\$ 299,340	\$ 299,340	\$ 241,638	\$ (57,702)
Total revenues	299,340	299,340	241,638	(57,702)
Expenses:				
Salaries and wages	85,000	85,000	70,821	14,179
Contract labor	5,500	5,500	3,330	2,170
Materials, supplies, and maintenance	68,000	68,000	42,008	25,992
Legal and accounting	7,000	7,000	4,116	2,884
Retirement plan	4,000	4,000	2,564	1,436
Taxes and insurance	45,000	45,000	22,476	22,524
Utilities	43,000	43,000	44,750	(1,750)
New Mexico Finance Authority	3,600	3,600	3,545	55
Other - Misc	23,000	23,000	11,248	11,752
NMFA Thoreau2	15,000	15,000	13,248	1,752
Total operating expenses	299,100	299,100	218,106	80,994
Non-operating revenues and expenses:				
Investment income			292	292
Sale of assets			-	-
Grant expenses			-	-
Reserve Account	-	-	-	-
Total non-operating revenue & expenses	-	-	292	292
Excess (deficiency) of revenues and other sources over expenses and other uses	240	240	23,824	\$ 23,584
Increase in cash balance required to balance the budget	\$ (240)	\$ (240)		
 RECONCILIATION TO GAAP:				
Depreciation			(52,693)	
Accounts receivable			(393)	
Inventory			(1,066)	
Accounts payable and accrued expenses			390	
Note payments			16,877	
Change in Net Position (Exhibit 2)			\$ (13,061)	

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)**

Independent Auditor's Report

Tim Keller,
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, 2016, and the related notes to the financial statements, which collectively comprise the Districts' basic financial statements and have issued our report thereon dated December 2, 2016.

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 item 2007-003, 2016-001, 2016-002, and 2016-003.

Compliance and Other Matters

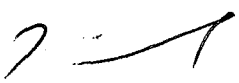
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 2007-002, 2007-003, 2016-001, 2016-002, and 2016-003.

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
December 2, 2016

**State of New Mexico
Thoreau Water and Sanitation District
Summary of Prior Year Audit Findings
June 30, 2016**

Prior Year Audit Findings

Current Status

2007-002 Defined Contribution Pension Plan
2007-003 Internal control structure does not allow
 for adequate segregation of duties

Repeated in current year

Repeated in current year

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses
June 30, 2016

CURRENT YEAR FINDINGS

2007-002 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. Management has not made any progress in this area.

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. The District has been working with its bank to resolve this finding. The Board is responsible for taking corrective action there have been no changes since last year but will keep reviewing for a suitable solution.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2016

2007-003 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. Management has not made any progress in this area.

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. The Board is responsible for taking corrective action there have been no changes since last year but will keep reviewing for a suitable solution.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2016

2016-001 Bank Balance (Significant deficiency and other)

Condition:

The balance in one non-interest bearing checking account was over \$250,000 at year end by \$52,252. 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 immediately correct the above finding. The Board is responsible for taking corrective action.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2016

2016-002 Budget control of expenditures (Significant deficiency and other)

Condition:

The District overspent the budget in the following line items (Section 6-6-6; NMSA 1978):

<u>Line Item:</u>	<u>Amount</u>
Utilities	\$ 1,750

Criteria:

The authority by which the District can spend money is the Commission and DFA approved budget (Section 6-6-6; NMSA 1978).

Effect:

Overspending of the budget is a violation of applicable laws, regulations and policies established by the State, District and DFA, which could impact future budget approvals.

Cause:

The District approved the purchase of a new laptop for the bookkeeper that was not budgeted for and did not realize that the budget was over spent until the next board meeting, which was after the year end.

Recommendation:

We recommend that The District comply with State Statutes and work within the limits of their budget. If necessary a budget adjustment request should be requested on a timely basis prior to exceeding the budgeted expenditure.

Agency Response:

The District concurs with the Auditor's recommendations and in the future will request a budget adjustment in a timely manner prior to the year end to eliminate this problem. The Board is responsible for taking corrective action.

State of New Mexico
Thoreau Water and Sanitation District
Schedule of Findings and Responses-continued
June 30, 2016

2016-003 Government Gross Receipts Tax Rate (Significant deficiency and other)

Condition:

The District is not consistently calculating governmental gross receipts tax or charging the customers the appropriate rate, also not charging gross receipts tax on late charges or sewer fees. The District has been charging the regular gross receipts tax of the county of 6.75% rather than the governmental gross receipts tax of 5.0%.

Criteria:

7-9-3.2 (A) (4) (5) NMSA 1978 defines "governmental gross receipts" to include receipts from sewage services and the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the state.

Effect:

The District does not appear to be collecting the proper amount of governmental gross receipts tax to remit to the New Mexico Taxation and Revenue Department.

Cause:

The District's utility billing system is not configured to charge gross receipts tax on sewer fees and late charges, also the wrong gross receipts tax on water fees is being charged.

Recommendation:

We recommend that The District comply with State Statutes and correct the utility billing system to charge the correct gross receipts tax on all taxable revenue.

Agency Response:

The District concurs with the Auditor's recommendations and will correct the utility billing system immediately to charge the correct gross receipts tax in a timely manner to eliminate this problem. The Board is responsible for taking corrective action.

State of New Mexico
Thoreau Water and Sanitation District
Other Disclosures
June 30, 2016

Exit Conference

An exit conference was held at Thoreau Water and Sanitation District on December 2, 2016:

Representing Thoreau Water and Sanitation District were:

James Herman	President
Sherry Botkin	Office Manager

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

Fidel A. Bernal, CPA

Report Drafting

The District has the capability of understanding and accepting the responsibility for their GAAP-basis financial statements, but has delegated the preparation of their financial statements to the auditors under the contract.