

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**June 30, 2017**

James L. Hartogenesis, CPA LLC

---

Certified Public Accountant

State of New Mexico  
THOREAU WATER AND SANITATION DISTRICT  
TABLE OF CONTENTS  
June 30, 2017

	<u>Page</u>
Official Roster .....	1
Independent Auditor's Report .....	2-3
<b>Financial Statements:</b>	
Statement of Net Position – Proprietary Fund .....	4
Statement of Revenues, Expenses, and Changes In Net Position – Proprietary Fund .....	5
Statement of Cash Flows – Proprietary Fund .....	6
Notes to Financial Statements .....	7-16
Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP Budgetary Basis) .....	17
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	18-19
Schedule of Findings and Responses.....	20-23
Status of Prior Year Findings .....	24
Exit Conference .....	25

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
June 30, 2017**

**Board of Directors**

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

**Management**

Sherry Botkin	Office Manager
---------------	----------------

**Independent Auditor's Report**

Wayne Johnson,  
New Mexico State Auditor  
and  
Members of the Board of Directors  
Thoreau Water and Sanitation District  
Thoreau, New Mexico

**Report on the Financial Statements**

I have audited the accompanying financial statements of the business-type activities of the State of New Mexico Thoreau Water and Sanitation District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. I have also audited the budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements for the year ended June 30, 2017, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the State of New Mexico Thoreau Water and Sanitation District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in my opinion, the financial statement referred to above presents fairly, in all material respects, the budgetary comparison for the year ended June 30, 2017 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 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated January 11, 2018, on my consideration of the District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*James L. Hartogensis, CPA LLC*

Albuquerque, New Mexico  
January 11, 2018

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2017**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 391,661
Accounts receivable net of allowance for uncollectible accounts of \$6,834	33,493
Unbilled receivables	10,825
Inventory	7,134
Prepaid assets	<u>1,905</u>
Total current assets	<u>445,018</u>
Noncurrent assets:	
Cash restricted for customer deposits	18,011
Capital assets:	
Property, plant and equipment	2,421,414
Less accumulated depreciation	<u>(1,243,295)</u>
Total noncurrent assets	<u>1,196,130</u>
Total assets	<u>\$1,641,148</u>

**LIABILITIES**

Current liabilities:	
Accounts payable	\$ 1,569
Compensated absences	2,946
Customer deposits payable	18,011
Accrued payroll and liabilities	4,327
Current portion of notes payable	<u>16,666</u>
Total current liabilities	<u>43,519</u>
Noncurrent liabilities:	
Compensated absences	17,270
Designated for employee retirement	16,273
Notes payable	<u>227,827</u>
Total noncurrent liabilities	<u>261,370</u>
Total liabilities	<u>304,889</u>

**NET POSITION**

Invested in capital assets, net of related debt	951,637
Unrestricted	<u>384,622</u>
Total net position	<u>1,336,259</u>
Total liabilities and net position	<u>\$1,641,148</u>

The Accompanying Notes are an Integral Part of These Financial Statements

STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year Ended June 30, 2017

Operating revenues:	
Charges for services	\$ 228,158
Miscellaneous income	380
Total operating revenues	<u>228,538</u>
Operating expenses:	
Salaries	67,631
Contract labor	4,430
Depreciation	52,693
Materials, supplies and maintenance	35,937
Legal & accounting	4,120
Postage	1,506
Retirement fund contributions	2,564
Taxes	15,024
Utilities	31,093
Insurance	8,169
Lab fees	2,923
Dues and filing fees	900
Telephone	3,346
Other expenses	1,033
Total operating expenses	<u>231,369</u>
Operating income (loss)	<u>(2,831)</u>
Nonoperating revenues (expenses):	
Interest income	324
Interest expense	(337)
Total nonoperating revenues (expenses)	<u>(13)</u>
Change in net position	(2,844)
Net position - beginning	<u>1,339,103</u>
Net position - ending	<u><u>\$1,336,259</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2017**

Cash flows from operating activities:	
Cash received from customer services and fees	\$ 236,948
Cash payments to employees	(67,920)
Paid to suppliers for goods and services	<u>(111,207)</u>
Net cash provided (used) by operating activities	<u>57,821</u>
Cash flows from investing activities:	
Interest income	<u>324</u>
Net cash provided (used) by investing activities	<u>324</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(41,833)
Principal payments on notes payable	(16,791)
Interest expense	<u>(337)</u>
Net cash provided (used) by capital and related financing activities	<u>(58,961)</u>
Net increase (decrease) in cash and cash equivalents	(816)
Cash and cash equivalents at beginning of year	<u>410,488</u>
Cash and cash equivalents at end of year	<u>\$ 409,672</u>
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (2,831)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	52,693
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	4,937
Increase (decrease) in accounts payable	(162)
Increase (decrease) in designated for retirement	2,565
Increase (decrease) in customer deposits	<u>619</u>
Net cash provided (used) by operating activities	<u>\$ 57,821</u>

The Accompanying Notes are an Integral Part of These Financial Statements



**STATE OF NEW MEXICO**  
**THOREAU WATER AND SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 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.

**Note 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 FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 2 Summary of Significant Accounting Policies (continued)**

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 services, 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 District'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 the 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, 2017, and it 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 account's 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 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 FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 2 Summary of Significant Accounting Policies (continued)**

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 are 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 and a useful life of greater than one year.

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

<u>Capital Assets</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 New Mexico Department of Finance and Administration (DFA).

This budget is prepared on the 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 the 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 the fund basis, i.e., budgeted expenditures 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 DFA.

The budgetary information presented in these financial statements was not amended during the current fiscal year.

**STATE OF NEW MEXICO**  
**THOREAU WATER AND SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 2 Summary of Significant Accounting Policies (continued)**

e. Budgets and budgetary accounting (continued)

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.
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. Management is authorized to transfer budgeted amounts between departments within any fund; however, the board of directors and DFA must approve revisions that alter the total expenditures 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 not employed 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, 2017 had no amendments for the year.

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 and cash equivalents*

Interest bearing deposits with original 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.

**STATE OF NEW MEXICO**  
**THOREAU WATER AND SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 2 Summary of Significant Accounting Policies (continued)**

g. Cash (continued)

*Deposits and investments*

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 pools, 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.

Deposits of funds may be made in the 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 the United States Treasury bills of the same maturity on time day of deposit.

Excess 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. Estimates

The preparation of the 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.

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**Note 2 Summary of Significant Accounting Policies (continued)**

j. Restricted and unrestricted resources

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

**Note 3 Summary of Cash Accounts**

Cash is restricted in the amount of \$18,011, representing restrictions for customer deposits.

At June 30, 2017, the carrying amount of the District's deposits was \$409,672 and the bank balance was \$413,642. Of this balance \$376,611 was covered by federal depository insurance, however, the remaining \$37,031 was not covered and the District was 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 the 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 uninsured amount on deposit with the institution. The schedule listed below reports the insured and uninsured portion of deposits:

Depository	Account Name	Type of Account	Bank Balance
US Bank	Preferred Business Money Market	Money Market	\$ 287,031
	Total US Bank		287,031
	Less: FDIC coverage		(250,000)
	Total federally (insured) uninsured		37,031
Wells Fargo	Retirement Fund I	Savings	16,624
	Total Savings Wells Fargo		16,624
	Less: FDIC coverage		(250,000)
	Total federally (insured) uninsured		(233,376)
Wells Fargo	Deposit Account	Checking	18,016
	Analyzed Business Checking Plus PF	Checking	91,971
	Total Checking Wells Fargo Bank		109,987
	Less: FDIC coverage		(250,000)
Total federally (insured) uninsured		(140,013)	
Total cash and cash equivalents in bank			413,642
Add cash on hand			50
Add outstanding deposits			-
Less outstanding checks			(4,020)
Reconciled cash balance			<u>\$ 409,672</u>

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**Note 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 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.

**Note 4 Accounts Receivable**

The accounts receivable (customer receivables) balance reported in the statement of net position is as follows:

Accounts receivable	\$40,327
Allowance for uncollectible accounts	<u>(6,834)</u>
Net accounts receivable	<u>\$33,493</u>

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

**Note 5 Changes in Utility Plant in Service**

A summary of changes in the utility plant in service for the year ended June 30, 2017 are as follows:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Business type activities:				
Capital assets, not being depreciated:				
Land	\$ 153,500	\$ -	\$ -	\$ 153,500
Capital assets, being depreciated:				
Building	1,484,843	952	-	1,485,795
Water and sewer lines	460,656	33,526	-	494,182
Machinery and equipment	96,557	-	-	96,557
Land improvements	176,924	-	-	176,924
Furniture & equipment	7,101	7,355	-	14,456
	2,226,081	41,833	-	2,267,914
Less accumulated depreciation	(1,190,602)	(52,693)	-	(1,243,295)
Total capital assets				
being depreciated, net	1,035,479	(10,860)	-	1,024,619
Total capital assets, net	\$ 1,188,979	\$(10,860)	\$ -	\$ 1,178,119

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**Note 5 Changes in Utility Plant in Service (continued)**

Depreciation expense for the year ending June 30, 2017 was \$52,693.

**Note 6 Long-Term Debt**

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's obligation is 10% of the total project or \$68,174, at an annual 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 an annual interest rate of 0.25% for 20 years. Both loans are secured by net system revenues. Long-term debt activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due in One Year
NM Finance Authority:					
228-WTB	\$ 51,129	\$ -	\$ (3,409)	\$ 47,720	\$ 3,409
THOREAU2	210,155	-	(13,382)	196,773	13,257
Total	<u>\$261,284</u>	<u>\$ -</u>	<u>\$(16,791)</u>	<u>\$244,493</u>	<u>\$16,666</u>

Annual debt service requirements are as follows:

<u>Year Ending June 30,</u>	State of N.M. Finance Authority		
	<u>228-WTB</u>	<u>THOREAU2</u>	<u>Total</u>
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
2022	3,409	13,260	16,669
Thereafter	<u>30,675</u>	<u>130,476</u>	<u>161,151</u>
	<u>\$ 47,720</u>	<u>\$196,773</u>	<u>\$244,493</u>

**Note 7 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. A summary of changes in the compensated absence liability for the year ending June 30, 2017 follows:



**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**Note 7 Compensated Absences (continued)**

	Balance			Balance	Amount
	6/30/2016	Increases	Decreases	6/30/2017	Due Within One Year
Compensated Absences	\$ 20,216	\$ 2,946	\$ (2,946)	\$ 20,216	\$ 2,946

**Note 8 Board Designated Retirement Funds**

The Board of Directors established an employee retirement fund in 1985. According to policy, the District contributes 6% of each employee’s salary once the employee becomes eligible. Employees do not contribute to the fund. Upon retirement or separation, employees receive the value of the account set aside for them.

The fund was not set up as a deferred compensation plan in accordance with the Employee Retirement Income Security Act (ERISA). The funds belong to the District until the employee terminates employment with the District. The District, at their discretion, may amend the retirement policy at any time.

At June 30, 2017, the amount set aside by the District was \$16,273. Based on current District policy, this amount is reported as a liability on the statement of net position.

**Note 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.

**Note 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 Environment 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**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 11 Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued. Transactions or events occurring after year-end may be disclosed if significant.

The District has evaluated subsequent events through January 11, 2018, which is the date the financial statements were available to be issued. No matters were identified for recognition in the accounts.

**STATE OF NEW MEXICO**  
**THOREAU WATER AND SANITATION DISTRICT**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2017**

	Original Approved Budget	Final Approved Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Water and sewer income	\$ 306,840	\$ 306,840	\$ 228,158	\$ (78,682)
Miscellaneous income	-	-	258	258
Total revenues	306,840	306,840	228,416	(78,424)
Expenses:				
Salaries and wages	85,000	85,000	67,631	17,369
Employee benefits	4,000	4,000	2,564	1,436
Contract labor	5,500	5,500	4,430	1,070
Materials, supplies, and maintenance	68,000	68,000	35,937	32,063
Legal and accounting	7,000	7,000	4,120	2,880
Taxes and insurance	50,000	50,000	23,193	26,807
Utilites	45,500	45,500	31,093	14,407
Miscellaneous other expenses	23,000	23,000	9,708	13,292
Debt service	18,600	18,600	17,128	1,472
Total operating expenses	306,600	306,600	195,804	110,796
Non-operating revenues and (expenses):				
Investment income	-	-	324	324
Transfers to reserve account	(240)	(240)	-	240
Total non-operating revenue & expenses	(240)	(240)	324	564
Excess (deficiency) of revenues and other sources over expenses and other uses	\$ -	\$ -	32,936	\$ 32,936
<b>RECONCILIATION TO GAAP:</b>				
Depreciation			(52,693)	
Accounts payable and accrued expenses			122	
Note payments			16,791	
Change in net position (Page 5)			\$ (2,844)	

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Wayne Johnson,  
New Mexico State Auditor  
and  
Members of the Board of Directors  
Thoreau Water and Sanitation District  
Thoreau, New Mexico

I 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 of the State of New Mexico Thoreau Water and Sanitation District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the related budgetary comparison of the District, presented as supplementary information, and have issued my report thereon dated January 11, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

My consideration of internal control was for the limited purpose described in the preceding 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control that I consider to be significant deficiencies described in the accompanying schedule of findings and responses as items 2007-003, 2016-001, 2016-003 and 2017-001.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978 and which are described in the accompanying schedule of findings and responses as items 2016-001 and 2017-001.

#### District's Response to Findings

The District's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*James L. Hartogensis, CPA LLC*

Albuquerque, New Mexico  
January 11, 2018

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2017**

**Current Year Findings**

**2007-003 – Inadequate Segregation of Duties (significant deficiency)**

*Condition:* The District does not have enough staff to properly segregate duties between the billing, collecting and recording of accounts receivable relating to water and sewer sales. The District has not made any progress towards clearing this finding.

*Criteria:* In order to prevent material misstatements of financial information, internal controls over accounts receivable should separate the billing, collecting and recording of accounts receivable.

*Cause:* The District does not have the resources to provide for adequate segregation of duties.

*Effect:* Misstatements could occur and not prevented, detected or corrected on a timely basis.

*Recommendation:* Management should consider the following procedural changes:

- Stop accepting cash as a form of payment,
- Employ a lockbox at a local financial institution where payments can be received and posted to customer accounts independently of District management,
- Require that each customer who pays in person get a receipt, and
- Have a person independent of the collection process verify each bank deposit by agreeing the deposit to the receipt book and billing software totals

*Agency Response:*

- The Office Manager will immediately post a sign to notify that cash is not be place in the mail drop for payment on accounts.
- There is no financial institution local. They are 30 miles away and would be a burden on the customers and the district.
- Every customer who pays on their account in person with a check, cash or money order has always been issued a receipt by the Office Manager and will continue to do this.
- The President or Board members will verify the deposit to the receipt book and billing software totals at their monthly meeting, beginning with the first board meeting after the audit is released.
- The District does not have the resources to provide staffing for adequate segregation of duties.

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2017**

**Current Year Findings (continued)**

**2016-001 – Uninsured Bank Balance (significant deficiency, other matter)**

*Condition:* The District maintains a money market account at a financial institution which exceeds Federal Deposit Insurance Corporation insurance of \$250,000. The District has not required the financial institution to pledge collateral against the uninsured balance of \$37,031, which state statute requires. Management has not corrected this deficiency from the prior year.

*Criteria:* Section 6-10-17 NMSA 1978 requires banks to pledge collateral equal to 50% of uninsured government bank balances. The Federal Deposit Insurance Corporation insures bank balances for \$250,000.

*Cause:* The District did not require the bank to pledge collateral against the uninsured funds. The bank was not aware of the statutory requirement.

*Recommendation:* The District should either require that the bank pledge collateral to comply with state law, or transfer some of the funds to an account at another institution to maintain balances under \$250,000.

*Agency Response:* President and Office Manager will contact the financial institution regarding the banks pledge collateral against the uninsured balance which exceeds over of the \$250,000. If no pledge can be obtained a transfer of some funds will be established with a suitable institution by 6/30/18.

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2017**

**Current Year Findings (continued)**

**2016-003 – Government Gross Receipts Tax Rate (significant deficiency)**

*Condition:* The District is not charging the correct governmental gross receipts tax to their customers for water and sewer services and related fees. The District has been charging 6.75% instead of the proper rate of 5%. The District has not made any progress towards correcting this deficiency.

*Criteria:* 7-9-3.2 NMSA 1978 defines governmental gross receipts as receipts of the state or an agency, institution, instrumentality or political subdivision 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.

*Cause:* The District's billing system has not been updated to reflect the proper gross receipts tax rate.

*Effect:* The District's customers are paying a higher rate than is allowed by state statute. Remittances to the NM Taxation and Revenue Department are overstated by approximately 1.75%.

*Recommendation:* The District should update their billing system to the correct tax rate.

*Agency Response:* Office Manager will update the billing system to the correct government gross receipts tax rate. This will be done by June 30, 2018.



**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2017**

**Current Year Findings (continued)**

**2017-001 – Late Audit and Audit Recommendation (significant deficiency, other matter)**

*Condition:* The District did not submit their 2017 audit report to the Office of the State Auditor by December 15, 2017, the due date of the report. In addition, the auditor recommendation for 2017 was not submitted to the State Auditor until October 2017.

*Criteria:* 2.2.2 NMAC (2017 State Audit Rule) requires submission of auditor recommendations for local public bodies with a June 30 year-end by May 15, 2017. 2.2.2 NMAC also requires submission of the annual audit by December 15, 2017.

*Cause:* The District initially recommended their prior audit firm to perform the 2017 audit. When the District became aware that auditor rotation was required for their 2017 audit, the District encountered delays in procuring and recommending another audit firm.

*Effect:* Users of the District's audited financial statements will not have access to timely financial and compliance information related to FY2017.

*Recommendation:* The District should implement policies and procedures to review and comply with the audit rule. Prior to recommending an audit firm each year, I recommend that the District review the audit rule to determine what the current requirements are for recommending an audit firm.

*Agency Response:* Once the new audit rule is available from the State Auditor's office, the Board of Director's and Office Manager will review the rule to determine what the current requirements are before submitting a recommendation for an audit firm to perform the audit of the District books. This will be completed prior to the deadline for recommendations that will be published in the new audit rule.

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
Year Ended June 30, 2017**

<b><u>Prior Year Finding</u></b>	<b><u>Current Status</u></b>
2007-002 Defined Contribution Pension Plan	Resolved
2007-003 Internal Control Structure Does Not Allow for Adequate Segregation of Duties	Repeated and modified
2016-001 Bank Balance	Repeated and modified
2016-002 Budget Control of Expenditures	Resolved
2016-003 Government Gross Receipts Tax Rate	Repeated and modified

**STATE OF NEW MEXICO  
THOREAU WATER AND SANITATION DISTRICT  
EXIT CONFERENCE AND OTHER INFORMATION  
Year Ended June 30, 2017**

The basic financial statements have been prepared by James L. Hartogensis, CPA LLC, with the assistance of the Thoreau Water and Sanitation District. The contents in this report is the responsibility of the Thoreau Water and Sanitation District.

The report contents were discussed at an exit conference held on December 12, 2017 with the following in attendance:

**Thoreau Water & Sanitation District**

James Herman	President
Sherry Botkin	Office Manager

**James L. Hartogensis, CPA LLC**

James Hartogensis, CPA, CGFM	Principal
------------------------------	-----------