

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

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

June 30, 2019



State of New Mexico
THOREAU WATER AND SANITATION DISTRICT
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**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
June 30, 2019**

Board of Directors

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

Management

Sherry Botkin	Office Manager
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Independent Auditor's Report

Brian S. Colón, Esq.
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, 2019, 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, 2019, 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.

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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, 2019, 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, 2019 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 December 16, 2019, 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
December 16, 2019

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
June 30, 2019**

ASSETS

Current assets:

Cash and cash equivalents	\$ 372,443
Accounts receivable net of allowance for uncollectible accounts of \$6,834	33,169
Unbilled receivables	10,825
Inventory	7,134
Prepaid assets	<u>1,905</u>
Total current assets	<u>425,476</u>

Noncurrent assets:

Cash restricted for customer deposits	18,429
Capital assets:	
Property, plant and equipment	2,443,348
Less accumulated depreciation	<u>(1,354,777)</u>
Total noncurrent assets	<u>1,107,000</u>
Total assets	<u><u>\$1,532,476</u></u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 1,569
Compensated absences	2,946
Customer deposits payable	18,429
Accrued payroll and liabilities	706
Current portion of notes payable	<u>16,669</u>
Total current liabilities	<u>40,319</u>

Noncurrent liabilities:

Compensated absences	21,986
Designated for employee retirement	21,834
Notes payable	<u>194,489</u>
Total noncurrent liabilities	<u>238,309</u>
Total liabilities	<u>278,628</u>

NET POSITION

Invested in capital assets, net of related debt	877,413
Unrestricted	<u>376,435</u>
Total net position	<u>1,253,848</u>
Total liabilities and net position	<u><u>\$1,532,476</u></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, 2019

Operating revenues:	
Charges for services	\$ 213,375
Miscellaneous income	<u>800</u>
Total operating revenues	<u>214,175</u>
Operating expenses:	
Salaries	74,067
Contract labor	4,863
Depreciation	58,789
Materials, supplies and maintenance	24,293
Legal & accounting	8,360
Postage	1,610
Retirement fund contributions	2,852
Taxes	14,990
Utilities	47,803
Insurance	7,696
Lab fees	1,729
Dues and filing fees	877
Telephone	2,838
Other expenses	<u>6,436</u>
Total operating expenses	<u>257,203</u>
Operating income (loss)	<u>(43,028)</u>
Nonoperating revenues (expenses):	
Interest income	992
Interest expense	<u>-</u>
Total nonoperating revenues (expenses)	<u>992</u>
Change in net position	(42,036)
Net position - beginning	<u>1,295,884</u>
Net position - ending	<u><u>\$1,253,848</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, 2019**

Cash flows from operating activities:	
Cash received from customer services and fees	\$ 217,906
Cash payments to employees	(72,108)
Paid to suppliers for goods and services	<u>(124,347)</u>
Net cash provided (used) by operating activities	<u>21,451</u>
Cash flows from investing activities:	
Interest income	<u>992</u>
Net cash provided (used) by investing activities	<u>992</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(21,934)
Principal payments on notes payable	(16,669)
Interest expense	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(38,603)</u>
Net increase (decrease) in cash and cash equivalents	(16,160)
Cash and cash equivalents at beginning of year	<u>407,032</u>
Cash and cash equivalents at end of year	<u>\$ 390,872</u>
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (43,028)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	58,789
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	3,485
Increase (decrease) in compensated absences	2,619
Increase (decrease) in customer deposits	246
Increase (decrease) in accrued payroll and liabilities	(3,513)
Increase (decrease) in designated for retirement	<u>2,853</u>
Net cash provided (used) by operating activities	<u>\$ 21,451</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, 2019

Note 1 Organization and Summary of Significant Accounting Policies

Organization

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.

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.

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1 Organization and Summary of Significant Accounting Policies (continued)

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

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

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 includes 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, 2019, 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.

STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 Organization and Summary of Significant Accounting Policies (continued)

c. Basis of accounting (continued)

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

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.

STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1 Organization and Summary of Significant Accounting Policies (continued)

e. Budgets and budgetary accounting (continued)

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

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, 2019 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, 2019

Note 1 Organization and 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.

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 FINANCIAL STATEMENTS
June 30, 2019**

Note 1 Organization and Summary of Significant Accounting Policies (continued)

k. GASBS 77

The Governmental Accounting Standards Board has issued statement No. 77 *Tax Abatement Disclosures* for required financial statement disclosures regarding tax abatements for governmental entities. The District had no tax abatements during the year ended June 30, 2019, therefore is not subject to GASBS 77 disclosures.

Note 2 Summary of Cash Accounts

Cash is restricted in the amount of \$18,429, representing restrictions for customer deposits.

At June 30, 2019, the carrying amount of the District's deposits was \$390,872 and the bank balance was \$394,047. Of this balance \$349,791 was covered by federal depository insurance, however, the remaining \$44,256 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	Account	Balance
US Bank	Preferred Business Money Market	Money Market	\$ 294,256
	Total US Bank		294,256
	Less: FDIC coverage		(250,000)
	Total federally (insured) uninsured		44,256
Wells Fargo	Retirement Fund I	Savings	22,197
	Total Savings Wells Fargo		22,197
	Less: FDIC coverage		(250,000)
	Total federally (insured) uninsured		(227,803)
Wells Fargo	Deposit Account	Checking	18,429
	Analyzed Business Checking Plus PF	Checking	59,165
	Total Checking Wells Fargo Bank		77,594
	Less: FDIC coverage		(250,000)
	Total federally (insured) uninsured		(172,406)
Total cash and cash equivalents in bank			394,047
Add cash on hand			50
Add outstanding deposits			-
Less outstanding checks			(3,225)
Reconciled cash balance			<u>\$ 390,872</u>

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 2 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 3 Accounts Receivable

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

Accounts receivable	\$ 40,003
Allowance for uncollectible accounts	<u>(6,834)</u>
Net accounts receivable	<u>\$ 33,169</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 4 Changes in Utility Plant in Service

A summary of changes in the utility plant in service for the year ended June 30, 2019 are as follows:

	Balance 6/30/2018	Additions	Deletions	Balance 6/30/2019
Business type activities:				
Capital assets, not being depreciated:				
Land	\$ 153,500	\$ -	\$ -	\$ 153,500
Capital assets, being depreciated:				
Building	1,485,795	18,434	-	1,504,229
Water and sewer lines	494,182	-	-	494,182
Machinery and equipment	96,557	3,500	-	100,057
Land improvements	176,924	-	-	176,924
Furniture & equipment	14,456	-	-	14,456
	2,267,914	21,934	-	2,289,848
Less accumulated depreciation	(1,295,988)	(58,789)	-	(1,354,777)
Total capital assets				
being depreciated, net	971,926	(36,855)	-	935,071
Total capital assets, net	\$ 1,125,426	\$ (36,855)	\$ -	\$ 1,088,571

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 4 Changes in Utility Plant in Service (continued)

Depreciation expense for the year ending June 30, 2019 was \$58,789.

Note 5 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, 2019 was as follows:

	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>July 1, 2019</u>	Amounts Due in <u>One Year</u>
NM Finance Authority:					
228-WTB	\$ 44,311	\$ -	\$ (3,409)	\$ 40,902	\$ 3,409
THOREAU2	<u>183,516</u>	<u>-</u>	<u>(13,260)</u>	<u>170,256</u>	<u>13,260</u>
Total	<u>\$ 227,827</u>	<u>\$ -</u>	<u>\$ (16,669)</u>	<u>\$ 211,158</u>	<u>\$ 16,669</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>
2020	\$ 3,409	\$ 13,260	\$ 16,669
2021	3,409	13,260	16,669
2022	3,409	13,260	16,669
2023	3,409	13,260	16,669
2024	3,409	13,260	16,669
Thereafter	<u>23,857</u>	<u>103,956</u>	<u>127,813</u>
	<u>\$ 40,902</u>	<u>\$ 170,256</u>	<u>\$ 211,158</u>

Note 6 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, 2019 follows:

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 6 Compensated Absences (continued)

	Balance			Balance	Amount
	6/30/2018	Increases	Decreases	6/30/2019	Due Within
					One Year
Compensated Absences	<u>\$ 22,313</u>	<u>\$ 3,817</u>	<u>\$ (1,198)</u>	<u>\$ 24,932</u>	<u>\$ 2,946</u>

Note 7 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, 2019, the amount set aside by the District was \$21,834. Based on current District policy, this amount is reported as a liability on the statement of net position.

Note 8 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 9 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, 2019

Note 10 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 December 16, 2019, 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, 2019

	Original Approved Budget	Final Approved Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water and sewer income	\$ 359,100	\$ 359,100	\$ 218,733	\$ (140,367)
Miscellaneous income	250	250	-	(250)
Total revenues	<u>359,350</u>	<u>359,350</u>	<u>218,733</u>	<u>(140,617)</u>
Expenses:				
Salaries and wages	95,000	95,000	75,340	19,660
Employee benefits	2,900	2,900	2,852	48
Contract labor	5,000	5,000	4,863	137
Materials, supplies, and maintenance	69,500	69,500	22,759	46,741
Legal and accounting	13,750	13,750	8,360	5,390
Taxes and insurance	37,000	37,000	23,408	13,592
Utilities	65,000	65,000	50,640	14,360
Vehicle expenses	10,000	10,000	3,785	6,215
Dues, fees, permits and licenses	2,600	2,600	718	1,882
Miscellaneous other expenses	40,000	40,000	16,842	23,158
Debt service	18,600	18,600	16,780	1,820
Total operating expenses	<u>359,350</u>	<u>359,350</u>	<u>226,347</u>	<u>133,003</u>
Non-operating revenues and (expenses):				
Investment income	-	-	992	992
Transfers to reserve account	-	-	-	-
Total non-operating revenue & expenses	<u>-</u>	<u>-</u>	<u>992</u>	<u>992</u>
Excess (deficiency) of revenues and other sources over expenses and other uses				
	<u>\$ -</u>	<u>\$ -</u>	(6,622)	<u>\$ (6,622)</u>
RECONCILIATION TO GAAP:				
Depreciation			(58,789)	
Accounts payable and accrued expenses			6,595	
Note payments			<u>16,780</u>	
Change in net position (Page 5)			<u>\$ (42,036)</u>	



**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***

Brian S. Colón, Esq.,
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, 2019, 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 December 16, 2019.

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, and 2016-003.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978 and which is described in the accompanying schedule of findings and responses as item 2016-001.

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
December 16, 2019

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No
Other instances of noncompliance noted?	Yes

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

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 made incremental progress towards clearing this finding, by reviewing billing totals and receipts at each Board meeting, but has not yet cleared the 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:

- Employ a lockbox at a local financial institution where payments can be received and posted to customer accounts independently of District management, 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, and independently verify monthly bank reconciliations.

Agency Response: Effective at the January 2020 board meeting, the board of directors will verify the deposit slips with the bank deposits, bank statements along with financial statements at their monthly meetings. The Board President is responsible for implementing the corrective action.

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

Current Year Findings (continued)

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

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 been able to get the financial institution to pledge collateral against the uninsured balance of \$44,256, which state statute requires. Management has contacted their financial institution to correct this deficiency. As of June 30, 2019, the required collateral has not been pledged.

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 has not responded to the District's requests to pledge collateral.

Effect: Noncompliance with the collateral requirements imposed by statute poses a risk to cash balances if the financial institution should fail for some reason.

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: The Office Manager will immediately contact the bank regarding the pledge of collateral which is required to comply with the state law. If the bank is unable to pledge collateral then the Office Manager, with Board approval, will transfer some of the funds to another account or another financial institution. This will be accomplished by the end of January, 2020.

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2019**

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. As of June 30, 2019, the District has not revised their billing system because the NM Taxation & Revenue Department (TRD) online filing does not allow the District to file using the governmental rate of 5%. The District has contacted TRD to set the District up with the governmental rate for their monthly remittances, but this has not yet occurred.

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 work with Taxation & Revenue to fix this filing issue, update their billing system to the correct tax rate, and consider amending prior returns to obtain a refund of overpaid tax.

Agency Response: The Office Manager will immediately contact the taxation and revenue department to correct the tax rates and update the billing program to show the 5% rate. These corrective actions will be completed by the Office Manager by the end of January, 2020.

**STATE OF NEW MEXICO
THOREAU WATER AND SANITATION DISTRICT
STATUS OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019**

Prior Year Finding

Current Status

2007-003 Internal Control Structure Does Not
Allow for Adequate Segregation of Duties

Repeated and modified

2016-001 Bank Balance

Repeated and modified

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, 2019**

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 November 22, 2019 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
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