

STATE OF NEW MEXICO

**TIERRA Y MONTES
SOIL AND WATER
CONSERVATION DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR-ENDED JUNE 30, 2018



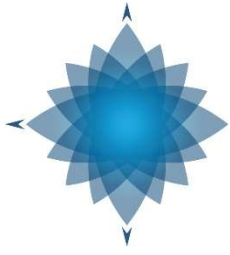
**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2018**

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**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Board of Supervisors</u>	<u>Title</u>
Rita Gallegos	Chairperson
Napoleon Quintana	Vice-Chairperson
Dennis M. River	Secretary/Treasurer
Richard Valencia	At Large
Gabe Estrada	Member

<u>District Personnel</u>	
Frances Martinez	District Manager
Carla Garduno	Administrative Assistant
Stephen Riechert	Project Facilitator
Lydia Ulibarri	Noxious Weed Coordinator



Independent Auditor's Report

Wayne Johnson
New Mexico State Auditor
and
Rita Gallegos, Chairperson
Tierra Y Montes Soil and Water Conservation District
Las Vegas, New Mexico

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of Tierra Y Montes Soil and Water Conservation District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the District's basic financial statements 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

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of proportionate share of the net pension liability and the schedule of contributions and notes to the Required Supplementary Information on pages 35-40 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted the Management 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. Our 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*, we have also issued our report dated October 17, 2018, 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

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 District's internal control over financial reporting and compliance.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM
October 17, 2018

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION
As of June 30, 2018

		Governmental Activities
Assets and deferred inflows of resources:		
Assets:		
Cash and cash equivalents	\$	1,968,523
Investments		15,608
Receivables		
Accounts receivable		52,800
Taxes receivable		211,532
Restricted cash		20,961
Total current assets		2,269,424
Non-current assets:		
Capital assets		538,543
Less: Accumulated depreciation		(312,449)
Total non-current assets		226,094
Total assets		2,495,518
Deferred Outflows of Resources:		
Employer contributions subsequent to the measurement date		24,240
Investment experience		55,613
Actuarial experience		16,808
Change of assumption		12,648
Change of proportion		33,685
Total deferred outflows of resources		142,994
Total assets and deferred outflows of resources	\$	2,638,512
Liabilities, deferred inflows of resources and net position:		
Liabilities:		
Accounts payable	\$	37,999
Accrued payroll liabilities		4,980
Current portion of compensated absences		18,015
Current portion of long-term debt		14,472
Total current liabilities		75,466
Non-current liabilities		
Compensated absences		4,504
Notes payable		14,531
Net pension liability		344,896
Net OPEB liability		241,085
Total non-current liabilities		605,016
Total liabilities		680,482
Deferred Inflows of Resources:		
Investment experience		30,784
Actuarial experience		26,916
Change of assumption		45,715
Total deferred inflows of resources		103,415
Net position		
Net Investment in Capital Assets		197,091
Unrestricted Net Position		1,657,524
Total net position		1,854,615
Total liabilities, deferred inflows of resources and net position:	\$	2,638,512

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Functions/programs	Program Revenues			Net (Expense) Revenue and Changes In Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary government:					
Governmental activities					
Conservation	\$ 623,586	-	221,943	-	(401,643)
Interest expense	177	-	-	-	(177)
Total governmental activities	\$ 623,763	-	221,943	-	(401,820)
Total primary government					(401,820)
General revenues:					
Taxes					
Property taxes levied for general purposes				\$ 497,139	
Interest income					4,496
Miscellaneous income					2,842
Total general revenue and transfers					504,477
Changes in net assets					102,657
Beginning net position					1,803,453
Restatement - Note 16					(51,495)
Beginning net position, as restated					1,751,958
Net position, end of year					\$ 1,854,615

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2018

	General Fund
Assets and deferred inflows of resources:	
Assets:	
Cash and cash equivalents	\$ 1,989,484
Investments	15,608
Receivables	
Accounts receivable	52,800
Taxes receivable	211,532
Total assets	2,269,424
Deferred Outflows of Resources:	
Total deferred outflows of resources	-
Total assets and deferred outflows of resources	\$ 2,269,424
Liabilities, deferred inflows of resources and fund balances:	
Liabilities:	
Accounts payable	\$ 38,000
Accrued payroll liabilities	4,980
Total liabilities	42,980
Deferred Inflows of Resources:	
"Unavailable" revenues	205,310
Total deferred inflows of resources	205,310
Fund balances:	
Unassigned	2,021,134
Total fund balances	2,021,134
Total liabilities, deferred inflows of resources and fund balances:	\$ 2,269,424

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
TO THE STATEMENT OF NET POSITION
As of June 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - Governmental funds	\$ 2,021,134
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	226,094
Delinquent property tax not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred inflows of resources in the fund financial statements, but are considered revenue in the statement of activities.	205,310
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in the funds:	
Deferred outflows of resources related to:	
Employer contributions subsequent to the measurement date	24,240
Investment experience	55,613
Actuarial experience	16,808
Change of assumption	12,648
Change of proportion	33,685
Deferred inflows of resources related to:	
Investment experience	(30,784)
Actuarial experience	(26,916)
Change of assumption	(45,715)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:	
Current compensated absences	\$ (18,015)
Noncurrent compensated absences	(4,504)
Current notes payable	(14,472)
Noncurrent notes payable	(14,531)
Net pension liability	(344,896)
Net pension liability	\$ <u>(241,085)</u>
	(637,503)
Rounding	<u>1</u>
Net position for governmental activities	\$ <u><u>1,854,615</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	<u>General Fund</u>
Revenues:	
Taxes	
Property	\$ 514,773
Intergovernmental revenue	
Federal grants	205,479
State grants	16,464
Interest income	2,842
Miscellaneous income	4,496
Total revenues	744,054
 Expenditures:	
Current:	
Conservation	562,225
Debt service	
Principal	14,414
Interest	177
Total expenditures	576,816
Excess (deficiency) of revenues over (under) expenditures	167,238
Other financing sources (uses):	-
Total other financing sources (uses):	-
Net change in fund balances	167,238
Beginning fund balance	1,841,968
Restatement - Note 16	11,928
Beginning fund balance, as restated	1,853,896
Ending fund balance	\$ 2,021,134

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
As of June 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Total net change in fund balances-governmental funds	\$	167,238
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Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimates useful lives and reported as depreciation expense.

Capital expenditures recorded as capital outlay or other expenses		10,345
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as an expenditure in the governmental funds.

		(21,571)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred inflows of resources related to property taxes receivable		(17,634)
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The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

(Increase)/decrease in compensated absences		(3,163)
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Principal payments on long-term debt		14,414
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Governmental funds report pension and OPEB contributions as expenditures. However, in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension or OPEB expense:

Employer contributions subsequent to the measurement date		24,240
Pension expense		(61,623)
OPEB expense		(9,589)
		(46,972)

Change in net position of governmental activities	\$	102,657
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STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes				
Property	\$ 460,000	460,000	515,579	55,579
Intergovernmental revenue				
Federal grants	320,146	320,146	158,626	(161,520)
State grants	154,989	154,989	16,464	(138,525)
Interest income	2,500	2,500	2,522	22
Miscellaneous income	5,500	5,500	4,496	(1,004)
Total revenues	943,135	943,135	697,687	(245,448)
Expenditures:				
Current:				
Conservation	1,072,646	1,072,646	527,642	545,004
Debt service				
Principal	19,500	19,500	14,414	5,086
Interest	500	500	177	323
Total expenditures	1,092,646	1,092,646	542,233	550,413
Excess (deficiency) of revenues over (under) expenditures	(149,511)	(149,511)	155,454	(795,861)
Other financing sources (uses):				
Total other financing sources (uses):	-	-	-	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(149,511)	(149,511)	155,454	(795,861)
Budgeted cash carryover	149,511	149,511		
Net change in fund balance	\$ -	-		
Reconciliation From Budget/Actual to GAAP				
Net change in fund balance (Non-GAAP budgetary basis)			\$ 155,454	
Adjustments to revenue for tax accruals and other miscellaneous revenue accruals			46,367	
Adjustments to expenditures for accrued wages and expenditures			(34,583)	
Net change in fund balance (GAAP)			\$ 167,238	

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tierra Y Montes Soil and Water Conservation District (District) is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-49 NMSA 1978). The District is a governmental subdivision of the state, a public body corporate and politic, organized for control and prevention of flood, sediment, and soil erosion damage, and to further the conservation, development and beneficial use of water and soil resources. The governing body of the District consists of five elected supervisors, four of whom must be landowners in the district. Two additional supervisors may be appointed to the district board. The Board of Supervisors has chosen to not appoint the two additional supervisors. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial statements of the District have been prepared in conformity with 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 most significant accounting policies are described below.

A. Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it can impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB-14. The first criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government can exercise oversight responsibilities. Based upon the application of

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

these criteria, the District has no component units and is not a component unit of another governmental agency.

B. Basis of Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The District's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column. Fiduciary activities of the District are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the District include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

The District reports the general fund as a major governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenue. Expenditures include all costs associated with the daily operation of the District except for items included in other funds.

The District does not report any other major funds.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

C. Assets, Liabilities and Equity

Cash Equivalents

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.

Investments

The District's investments are regulated by state law as well as by guidelines and rules promulgated by the State Investment Council and the State Treasurer. All investments are generally highly liquid in nature and are integrated with cash on the financial statements with appropriate disclosure.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Investments are stated at fair value, which is determined using selected bases. Certificates of deposit are reported at carrying amount, which reasonably estimates fair value. Additional cash, investment information, and fair values are presented in Notes 3 and 4.

Receivables and Payables

All receivables are shown net of an allowance for uncollectible accounts. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectible accounts.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Property taxes attach as an unsubordinated enforceable lien on property as of January 1 of the assessment year. Current year taxes are levied within five days of the rate setting order received from New Mexico Department of Finance and Administration (7-38-32 thru 7-38-36). Tax bills are mailed by November 1, unless the San Miguel County Assessor obtains a formal extension of time from the New Mexico Property Tax Division. Taxpayers have the option to pay in two equal installments due by the close of business November 10th and April 10th. Penalty and interest will be accrued after the delinquency due dates of December 10th and May 10th. In the event of a formal extension, the respective dates are correspondingly extended.

The accounts payable as of the balance sheet date include routine monthly bills for services rendered and products purchased which are paid in the following months.

Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption and are valued at cost using a first-in, first-out (FIFO) method. Expendable supplies are accounted for using the consumption method. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as expenditures when consumed rather than when purchased. The District current does not hold any items in inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital

**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

assets reported in the government wide statements. Information technology equipment including software is being capitalized and included in machinery and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets that have been disposed of are recorded as deletions on the government-wide financial statements. Accumulated depreciation is adjusted for all deletions.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the District during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Land	Perpetuity
Construction in progress	Perpetuity
Buildings	30 - 40
Leasehold Improvements	20
Vehicles	5
Office Equipment	5-7
Farm Equipment	5-7

Analysis of Impairment

Management reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In management's opinion, there is no impairment of such District assets at June 30, 2018.

Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The District has five types of items that qualify for reporting in this category. Accordingly, the items, employer contributions subsequent to measurement date, net difference between expected and actual earnings on pension plan and OPEB plan investments, net difference between expected and actual experience, change in assumptions and change in proportion, are reported on the Statement of Net Position. These amounts are deferred and recognized as an outflow of resources in the period the amounts become available. The District has recorded deferred outflows totaling \$24,240 related to contributions subsequent to the measurement date, \$12,648 related to change in assumptions, \$55,613 related to the net difference

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between expected and actual earnings on pension plan and OPEB plan investments, \$16,808 related to actuarial experience, and \$33,685 related to change in proportion.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized.

If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources.

The District has six types of items which qualify for reporting in this category. The items, unavailable revenue – property taxes and unavailable revenue - grants, are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has recorded \$205,310 related to property taxes and \$-0- related to grants that are considered “unavailable”.

The items, net difference between expected and actual earnings on pension plan and OPEB plan investments, change in assumptions, actuarial experience, and change in proportion, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has recorded \$30,784 related to the net difference between expected and actual earnings on pension plan and OPEB plan investments, \$26,916 related to the net difference between expected and actual experience, \$45,715 related to changes in assumptions and \$- related to changes in proportion.

Compensated Absences

The District's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave, since the government does not have a policy to pay amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements. A current liability for these amounts is reported in the governmental funds only. If they have matured, for example, as a result of resignation and retirements. If the employee is terminated the accrued time is not paid out.

The District's policy states that employees accrue leave at 3.08 hours per pay period if the employee has less than three years of employment, increasing to 4 hours for less than seven years of employment, 5 hours for less than eleven years of employment, 6 hours for less than fifteen years of employment and 6.3 hours for more than fifteen years of employment. Employees may not carryover more than 240 hours forward from one calendar year to the next.

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Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent.

Governmental Fund Financial Statements. In accordance with GASBS No. 54, the District classifies fund balances in the governmental funds as follows:

Nonspendable Fund Balance includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal/contractual requirements. Examples are Prepaid Expenses and Inventory.

Spendable Fund Balance includes Restricted, Committed, Assigned, and Unassigned designations:

Restricted includes fund balance amounts that are limited for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are obligated to a specific purpose which are internally imposed by the government through formal action (Ordinances and Resolutions) at the highest level of decision-making authority (Board of Supervisors). These commitments can only be overturned by a like action.

Assigned includes spendable fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Undesignated excess Fund Balances may be assigned by the Board of Supervisors for specific purposes through the budget process or agenda items. The assigned designation may be reversed by the Board of Supervisors at any public meeting.

Unassigned includes residual positive fund balances within the General Fund, which have not been classified within the other above-mentioned categories. Unassigned Fund Balances

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may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the District's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the District's policy to use committed resources first, then assigned, and then unassigned as needed.

The District does not have a formal minimum fund balance requirement.

Net Position

Government-wide Financial Statements. The District classifies net position in the government-wide financial statements as follows:

Net Investment in Capital Assets includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board of Supervisors has the authority to revisit or alter this designation.

D. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net

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position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. Income Taxes

As a local government entity, the District is not subject to federal or state income taxes. For the year ended June 30, 2018, no interest or penalties were recorded or included in the financial statements.

G. Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The District adopts budgets for each individual fund. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed Revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the approved budget.

During the course of the fiscal year, the District prepares monthly budget reports. Under New Mexico State law, each year's budget appropriation legally lapses at year-end.

Budgetary Compliance – Budgetary control is required to be maintained at the individual fund level.

Actual fund revenues may be either over or under the budgeted amounts; however, the variance is required to be reasonable, particularly in the case of over-budgeted revenues. Major over-budgeted revenues require a budget amendment as soon as the extent of the shortage is reasonably ascertainable.

Budget Amendments – Budget increases and decreases can only be accomplished by Board of Supervisor resolution, followed by DFA approval. Similarly, budget transfers must follow the same procedure.

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Budgetary Basis – State law prescribes that the District's budget be prepared on the basis of cash receipts and cash expenditures. Therefore, budgetary comparisons shown in exhibits are prepared on a cash basis to compare actual revenues and expenditures with a cash basis budget as amended.

The accompanying Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2018 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

NOTE 3 – CASH AND CASH EQUIVALENTS

The District's cash balances consist of demand deposits, interest bearing savings accounts. The District does not have a deposit policy.

The District reports the following cash and cash equivalents balances as of June 30, 2018:

Southwest Capital Bank

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Outstanding items</u>	<u>Reconciled balance</u>
Tierra Y Montes SWCD	Interest-Checking	\$ 1,411,667	(35,519)	1,376,147
	Less: FDIC coverage	(250,000)		
	Uninsured Amount	1,161,667		
	50% collateral requirement	580,833		
	Pledged securities	500,000		
	Over (Under) Secured	\$ (80,833)		

The following securities are pledged at Southwest Capital Bank and were held at FHLB located in Dallas, TX:

<u>Description</u>	<u>CUSIP #</u>	<u>Par/ Market Value</u>	<u>Maturity Date</u>
FHLB-LC3649000101 - LOC 2696000767	N/A	\$ 500,000	1/25/2019
		\$ 500,000	

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Community 1st – Las Vegas

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Outstanding items</u>	<u>Reconciled balance</u>
Tierra Y Montes SWCD	Interest-Checking	\$ 411,230	-	411,230
	Less: FDIC coverage	(250,000)		
	Uninsured Amount	161,230		
	102% collateral requirement	164,455		
	Pledged securities	509,508		
	Over (Under) Secured	\$ 345,053		

The following securities are pledged at Community 1st – Las Vegas and were held at FHLB located in Dallas, TX:

<u>Description</u>	<u>CUSIP #</u>	<u>Par/ Market Value</u>	<u>Maturity Date</u>
Alamogordo NM Municipal School	011464FRO	\$ 438,177	8/1/2020
Alamogordo NM Municipal School	011464FRO	71,331	8/1/2020
		\$ 509,508	

State Employees Credit Union

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Outstanding items</u>	<u>Reconciled balance</u>
Tierra Y Montes SWCD	Savings	\$ 181,146	-	181,146
	Less: SMSIA coverage	(181,146)		
	Uninsured Amount	-		
	Over (Under) Secured	\$ -		

The cash held by NMFA is restricted for debt service.

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Outstanding items</u>	<u>Reconciled balance</u>
Tierra Y Montes SWCD	Savings	\$ 6,291	-	6,291
	Savings	14,671	-	14,671
		20,962	-	20,962
	Less: FDIC coverage	(20,962)		
	Uninsured Amount	-		
	Over (Under) Secured	\$ -		

Custodial Credit Risk Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District funds may not be returned. The District does not have a deposit policy for custodial risk

State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit be collateralized by the depository thrift or banking institution. At present, state statutes require that a minimum of fifty percent of uninsured balances on deposit with anyone institution must be collateralized, with higher requirements up to 102% for financially troubled institutions.

Based on the above, the District is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to 50% of the public money in each account. The pledged securities must be in the name of the governmental entity and held by the entity or its agent.

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The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency or political subdivision of the State of New Mexico.

As of June 30, 2018, the District's bank balances of \$2,025,004 were exposed to custodial credit risk as follows:

Insured through federal depository insurance	\$ 702,108
Uninsured, collateralized with securities held by pledging financial institution's trust department or agent in the Town's name.	1,009,508
Uninsured and uncollateralized	<u>313,389</u>
Total uninsured deposits	<u><u>\$ 2,025,004</u></u>

NOTE 4 – INVESTMENTS

The District's investments consisted of the following as of June 30, 2018:

<u>Investment Type</u>	<u>Cost Basis</u>	<u>Market Value</u>
Certificate of deposit	\$ 15,608	15,608
	<u>\$ 15,608</u>	<u>15,608</u>

NOTE 5 – RECEIVABLES

Receivables as of June 30, 2018 are as follows:

	<u>General Fund</u>
Taxes:	
Property	\$ 211,532
Other	<u>52,800</u>
Subtotal	264,332
Less: Allowance for uncollectibles	<u>-</u>
Net Receivables	<u><u>\$ 264,332</u></u>

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NOTE 6 – CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2018 follows. Land and construction in progress are not subject to depreciation.

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Balance 06/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/18</u>
Capital assets being depreciated:				
Buildings	\$ 245,344	-	-	245,344
Leasehold Improvements	26,533	-	-	26,533
Vehicles	104,336			104,336
Farm Equipment	140,488	10,344	-	150,832
Office Equipment	11,497	-	-	11,497
Total capital assets being depreciated	<u>528,198</u>	<u>10,344</u>	<u>-</u>	<u>538,542</u>
Less accumulated depreciation for:				
Buildings	(58,697)	(5,336)		(64,033)
Leasehold Improvements	(22,789)	(1,327)		(24,116)
Vehicles	(68,722)	(8,475)		(77,197)
Farm Equipment	(129,173)	(6,432)		(135,605)
Office Equipment	(11,497)	-	-	(11,497)
Total accumulated depreciation	<u>(290,878)</u>	<u>(21,570)</u>	<u>-</u>	<u>(312,448)</u>
Total capital assets being depreciated	<u>237,320</u>	<u>(11,226)</u>	<u>-</u>	<u>226,094</u>
Total capital assets, net of depreciation	<u>\$ 237,320</u>	<u>(11,226)</u>	<u>-</u>	<u>226,094</u>

Depreciation expense for the year ended June 30, 2018 totaled \$21,571 and was charged to the general fund's conservation function.

NOTE 7 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2018, was as follows:

	<u>Balance 6/30/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2018</u>	<u>Amount due within one year</u>
Governmental funds debt					
Compensated absences	\$ 19,356	14,415	(11,252)	22,519	18,015
Notes payable	43,417	-	(14,414)	29,003	14,592
Total governmental activities	<u>\$ 62,773</u>	<u>14,415</u>	<u>(25,666)</u>	<u>51,522</u>	<u>32,607</u>

Long-term liabilities are liquidated from the general fund. No short-term debt was incurred during fiscal year 2018.

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Notes payable

NMFA – Building

<u>Purpose</u>	<u>Original</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
Construct a building	\$ 207,590	2.50%	4/1/2020	\$ 29,003

The annual principal and interest requirements on long-term debt outstanding as of June 30, 2018 are as follows.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 14,472	120	14,592
2020	14,531	61	14,592
2021	-	-	-
2022	-	-	-
2023	-	-	-
Total	<u>\$ 29,003</u>	<u>181</u>	<u>29,184</u>

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District’s supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,050,000 for each wrongful act and \$1,050,000 for the policy aggregated. The District is required to obtain a corporate fidelity bond on behalf of persons responsible for District assets. The District currently maintains a \$10,000 fidelity bond on its District Clerk and Supervisors. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

NOTE 11 – PERA PENSION PLAN

General Information about the Pension Plan

Plan description. The *Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

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PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org> using the Audit Report Search function for agency 366.

Benefits provided. Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

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Contributions. See PERA’s compressive annual financial report for Contribution provided description.

PERA Contribution Rates and Pension Factors as of July 1, 2017						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99%	3.0%	2.5%	90%
MUNICIPAL PLANS 1 - 4						
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.4%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	2.5%	90%
MUNICIPAL POLICE PLANS 1 - 5						
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
MUNICIPAL FIRE PLANS 1 - 5						
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2018, the District reported a liability of \$344,896 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending

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June 30, 2017 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the District's proportion was 0.0251%, which was an increase of 0.0016% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$41,580. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,808	17,664
Changes of assumptions	12,648	3,564
Net difference between projected and actual earnings on pension plan investments	55,613	27,316
Changes in proportion and differences between District contributions and proportionate share of contributions	33,685	-
District contributions subsequent to the measurement date	<u>20,043</u>	<u>-</u>
	<u>\$ 138,797</u>	<u>48,544</u>

\$20,043 reported as deferred outflows of resources related to pensions resulting from Tierra y Montes Soil and Water Conservation District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2019	\$	28,917
2020		40,555
2021		9,008
2022		(8,271)
2023		-
Thereafter	\$	-

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TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
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Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
Actuarial assumptions:	
Investment rate of return	7.51% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for first 9 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 9 years, 2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2016 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>ALL FUNDS - Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50%	1.79%
Credit Oriented Fixed Income	15.00%	5.77%
Real Assets	20.00%	7.35%
	<u>100.00%</u>	

Discount rate: A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the

**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
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projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate. The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.51 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 percent) or 1-percentage-point higher (8.51 percent) than the current rate:

	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
District's proportionate share of the net pension liability	\$ 540,565	344,896	182,169

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in separately issued PERA’S financial reports.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB

Plan description. Employees of the District are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA’s financial information is included with the financial presentation of the State of New Mexico.

Benefits provided. The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

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TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Employees covered by benefit terms – At June 30, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	160,035
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	97,349

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the District were \$4,197 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$241,085 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the District’s proportion was 0.00532 percent.

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FOR THE YEAR ENDED JUNE 30, 2018

For the year ended June 30, 2018, the District recognized OPEB expense of \$9,589. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	9,252
Changes of assumptions	-	42,151
Net difference between projected and actual earnings on OPEB plan investments	-	3,468
District contributions subsequent to the measurement date	4,197	-
	\$ 4,197	54,871

Deferred outflows of resources totaling \$4,197 represent District contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (11,666)
2020	(11,666)
2021	(11,666)
2022	(11,666)
2023	(8,207)
Total	\$ (54,871)

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

STATE OF NEW MEXICO
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FOR THE YEAR ENDED JUNE 30, 2018

Rate of Return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
U.S. core fixed income	4.1%
U.S. equity - large cap	9.1
Non U.S. - emerging markets	12.2
Non U.S. - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
U.S. equity - small/mid cap	9.1

Discount Rate. The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

	<u>1% Decrease (2.81%)</u>	<u>Current Discount Rate (3.81%)</u>	<u>1% Increase (4.81%)</u>
District's proportionate share of the net OPEB liability	\$ 292,432	241,085	200,798

**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 205,059	241,085	269,176

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability. At June 30, 2018, the District reported a payable of \$- for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

NOTE 15 – CONTINGENCIES

The District participates in a number of federal, state, and local programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2018, significant amounts of grant expenditures have not been audited by the grantor agencies.

Management believes that any disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds of the overall financial position of the District.

NOTE 16 –RESTATEMENTS OF BEGINNING FUND BALANCES/NET POSITION

During the year ended June 30, 2018, the District adopted GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB75)*. GASB 75 is designed to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Additional information regarding the adoption of GASB 75 can be found in Note 1 and Note 12.

The District has a prior period adjustment of \$(286,367) which was required due to the adoption of GASB 75. This adjustment reflects a beginning net OPEB liability of \$(290,938) and a beginning deferred outflow of resources – employer contributions subsequent to the measurement date of \$4,571.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

During the year ended June 30, 2018, prior period adjustments to the general fund beginning fund balance totaling \$11,928 were necessary to correct errors in beginning balances identified through the audit process.

A prior period adjustment totaling \$222,944 was made to the government-wide net position due to prior year revenues being understated by \$222,944 due to understated property tax receivables.

The following table outlines the cumulative effect of the adjustments to net position/fund balances:

<u>Fund</u>	<u>Purpose/Reason</u>	<u>Amount</u>
Governmental funds		
General Fund	Prior year receivables were understated	\$ 229,321
General Fund	Prior year payables were overstated	5,551
General Fund	Prior year unavailable revenues were understated	<u>(222,944)</u>
Total governmental funds		<u>\$ 11,928</u>
Government-wide statements	Implementation of GASB 75	\$ (286,367)
	Prior year revenues were understated	222,944
	Restatements from above	<u>11,928</u>
Total governmental activities		<u>\$ (51,495)</u>

NOTE 17 – EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 17, 2018, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY OF PERA FUND DIVISION MUNICIPAL GENERAL
Public Employees Retirement Association (PERA) Plan
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0251%	0.0235%	0.0224%	0.0179%
District's proportionate share of the net pension liability (asset)	\$ 344,896	375,451	228,387	139,629
District's covered-employee payroll	\$ 209,872	231,833	201,573	183,858
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	164.34%	161.95%	113.30%	75.94%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

*Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for District is not available prior to fiscal year 2015, the year the statement's requirements became effective.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF CONTRIBUTIONS
Public Employees Retirement Association (PERA) Plan
PERA Municipal General Division
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 20,043	21,807	19,250	17,545
Contributions in relation to the contractually required contribution	<u>20,043</u>	<u>21,807</u>	<u>19,250</u>	<u>17,545</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 209,872	231,833	201,573	183,858
Contributions as a percentage of covered-employee payroll	9.55%	9.41%	9.55%	9.54%

* Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the District is not available prior to fiscal year 2015, the year the statement's requirements became effective.

STATE OF NEW MEXICO
TERRA Y MONTESSOL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

Changes of benefit terms. The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>

Assumptions. The Public Employees Retirement Association of New Mexico Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmpera.org/>

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY OF RETIREE HEALTHCARE AUTHORITY
Retiree Health Care Act (RHCA) Plan
Last 10 Fiscal Years*

	2018
District's proportion of the net OPEB liability (asset)	0.0053%
District's proportionate share of the net OPEB liability (asset)	\$ 241,085
District's covered-employee payroll	\$ 209,872
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	114.87%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF CONTRIBUTIONS
Retiree Health Care Act (RHCA) Plan
Last 10 Fiscal Years*

	<u>2018</u>
Contractually required contribution	\$ <u>4,197</u>
Contributions in relation to the contractually required contribution	<u>4,197</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
District's covered-employee payroll	\$ 209,872
Contributions as a percentage of covered-employee payroll	2.00%

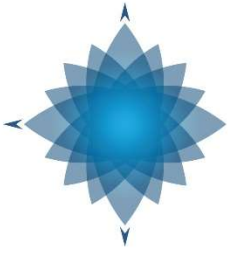
* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

Changes of benefit terms. The RHCA and COLA eligibility benefits changes in recent years are described in Note 1 of RHCA's CFAR. <https://www.saonm.org>

Assumptions. The New Mexico Retiree Healthcare Authority's Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmrhca.org/>

SUPPLEMENTAL INFORMATION



**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**

Independent Auditor's Report

Wayne Johnson,
New Mexico State Auditor and
The Board of Supervisors of
Tierra y Montes Soil and Water Conservation District
Las Vegas, 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 governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund of the District, State of New Mexico, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2018.

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 (internal control) to determine the audit 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 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 material weaknesses: 2018-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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: 2018-001.

Tierra Y Montes Soil and Water Conservation District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Integrity Accounting & Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM

**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 1. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| c. Noncompliance material to the financial statements noted? | No |
| d. Other noncompliance/other matters? | Yes |

SECTION II FINDINGS – FINANCIAL STATEMENTS

Finding	Status of Current and Prior Year Findings
Prior Year Findings	
None	Resolved
Current Year Findings	
2018-001 - Under collateralized accounts	Current
2018-002 - Controls over financial reporting	Current

CURRENT YEAR FINDINGS

2018-001 – UNDER-COLLATERALIZED ACCOUNTS – Other non-compliance

Condition

It was observed that the District's cash balances held at Southwest Capital Bank were under-collateralized by \$80,833 as of June 30, 2018. The 50% collateral requirement for that account was \$580,833 and the bank was only providing \$500,000 in collateralization on that account.

Criteria

Section 6-10-17 NMSA 1978 provides that any financial institution designated as a depository of public money shall deliver securities having an aggregate value of at least one-half the amount of public money to be deposited to a custodial bank and shall deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom the public money is received for deposit.

**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

Cause

The District was not aware that the collateral requirement on their cash balances with the bank had exceeded the collateral in place.

Effect

The District is not in compliance with Section 6-10-17 NMSA 1978 and is exposed to potential loss in the event of failure of the financial institution.

Recommendation

It is recommended that the District contact Southwest Capital Bank and ensure that the collateral provided by the bank is at the appropriate level as determined by the Office of the State Treasurer.

Response

The District Manager will contact the bank to ensure they are providing the necessary levels of collateralization. We expect the collateralization to be corrected by the end of October 2018.

2018-002 – CONTROLS OVER FINANCIAL REPORTING – Material Weakness

Condition

Following the commencement of audit fieldwork, a number of adjusting entries were identified that had a material effect on the revenues and expenditures of the District. Financial statement areas that required adjustment, due to unrecorded transactions, included but were not limited to the following:

- Cash balances were increased by \$20,961
- Receivables were increased by \$264,332
- Accounts payable were increased by \$38,000
- Deferred inflows of resources were increased by \$205,310

Additionally, period adjustments totaling \$11,928 at the fund financial level and \$222,944 at the government-wide financial statement level were necessary to correct beginning balances for under/over stated accounts from prior years.

Criteria

Statement on Auditing Standards ("SAS") Number 115 defines a material weakness in financial reporting internal controls as a significant deficiency in internal controls that results in more than a remote likelihood that a material misstatement of the District's financial statements would not be prevented or detected by the District's internal financial reporting control.

Management is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Cause

The District did not have an effective process for identifying and correcting material adjustments to the accounting records to ensure the reported balances are correct.

**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

Effect

There is an increased risk that a misstatement of the District's financial statements, that is more than inconsequential, will not be prevented or detected. As a result, financial statements reviewed by management and the governing body may be materially inaccurate.

Recommendation

Management should implement financial reporting processes that provide assurance that internally generated financial information is complete and accurate.

Response

The District Manager will implement a process to ensure that receivables and payables are appropriately identified at year end. We expect this to be in place by the end of the fiscal year, June 2019.

**STATE OF NEW MEXICO
TIERRA Y MONTES SOIL AND WATER CONSERVATION DISTRICT
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2018**

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Presentation: The accompanying financial statements are the responsibility of the District and are based on information from the District's financial records. Assistance was provided by Integrity Accounting & Consulting to the District in preparing the financial statements.

B. EXIT CONFERENCE

The contents of the report for the Tierra Y Montes Soil and Water Conservation District were discussed on October 17, 2018. The following individuals were in attendance.

Tierra Y Montes Soil and Water Conservation District Officials

Rita Gallegos, Chairperson

Frances Martinez, District Manager

Integrity Accounting & Consulting, LLC

Erick Robinson, CPA, CFE Partner

Jela Basista, CPA