

**State of New Mexico
Timberon Water and Sanitation
Audited Financial Statements
June 30, 2004**

**Dan Austin CPA, PC
508 Mechem Drive
Ruidoso, NM 88345**

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OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

September 6, 2005

SAO Ref. No. 4097

Larry Hanson, Chairman
and
Member of the Elected Officials
Timberon Water & Sanitation District
PO Box 40
Timberon, NM 88350


SUBJECT: Audit Report—Timberon Water & Sanitation District—2003-2004 Fiscal Year—
Prepared by Dan Austin, CPA, PC

Your agency audit report was received by the Office of the State Auditor (Office) on July 13, 2005. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A), NMSA 1978, **the audit report does not become public record until ten days after the date of this letter.** Once the ten day waiting period has passed the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer; and
- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10 K. (3) (d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies.*

The independent public accountant's findings and comments are included in the audit report on page 26. ***It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.***


DOMINGO P. MARTINEZ, CGFM
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration-
Local Government Division
Dan Austin, CPA, PC

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Introductory Section

State of New Mexico
Timberon Water and Sanitation District
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June 30, 2004

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State of New Mexico
Timberon Water and Sanitation District
Function of the Entity and Official Roster
June 30, 2004

Function of the Entity

The Timberon Water and Sanitation District was incorporated as a Special Water District in 1990 to acquire, operate and maintain the assets of the District. The District provides water, roads, parks, recreational facilities to the citizens of the District.

Official Roster

Elected Officials

Title

Larry Hanson

Chairman

Joan Schug

Vice Chairman

Betty Phillips

Treasurer

Sid Benson

Director

Colleen Gillmouthe

Director

MANAGEMENT

TITLE

Bill Gideon

General Manager

Deborah J. Goss

Office Administrator and Secretary

Financial Section

**DAN AUSTIN CPA, PC
508 MECHEM DRIVE STE D
RUIDOSO, NEW MEXICO 88345**

Independent Auditor's Report

Domingo P. Martinez, State Auditor, and
Board of Directors of the Timberon Water and Sanitation District,
The Citizens of the State of New Mexico

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the budgetary comparisons of the Timberon Water and Sanitation District, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons of the enterprise fund for the year ended June 30, 2004 listed as supplementary information in the table of contents. These financial statements are the responsibility of the Timberon Water and Sanitation District's management. My responsibility is to express an opinion on these financial statements based on my audit.

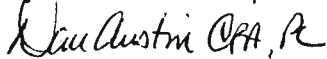
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, and each major fund of the Timberon Water and Sanitation District, as of June 30, 2004, and the respective changes in the financial position and cash flows where applicable thereof and the respective budgetary comparisons thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Timberon Water and Sanitation District has implemented a new financial reporting model, as required by the provisions of the *Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis* – for State and Local Governments as of July 1, 2004.

The Timberon Water and Sanitation District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 14, 2005 on my consideration of the Timberon Water and Sanitation District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



January 14, 2005

State of New Mexico
 Timberon Water and Sanitation District
 Government Wide Statement of Net Assets
 June 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash on Deposit (Note 3)	\$ 247,048	\$ 68,235	\$ 315,283
Taxes Receivable	16,781	-	16,781
Receivables, net of uncollectible accounts	-	35,010	35,010
Inventory	6,041	-	6,041
Total Current Assets	269,870	103,245	373,115
Noncurrent assets:			
Capital assets, net of depreciation (Note 8)	762,581	740,304	1,502,885
Total Assets	1,032,451	843,549	1,876,000
Liabilities			
Current liabilities			
Accounts payable	2,256	3,081	5,337
Payroll and sales tax payable	241	653	894
Compensated absences payable (Note 4)	2,819	2,616	5,435
Total Current Liabilities	5,316	6,350	11,666
Non-Current Liabilities			
Line extension agreements payable (Note 14)	-	9,291	9,291
Total Liabilities	5,316	15,641	20,957
Net Assets			
Invested in capital assets	762,581	740,304	1,502,885
Unrestricted Net Assets	264,554	87,604	352,158
Total net assets	\$ 1,027,135	\$ 827,908	\$ 1,855,043

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

State of New Mexico
 Timberon Water and Sanitation District
 Statement of Activities
 For the Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business Type Activities	
Primary Government:						
Governmental activities:						
General government	\$ 168,466	\$ 30,531	\$ -	\$ (137,935)	\$ -	\$ (137,935)
Streets and facilities	31,840	-	-	(31,840)	-	(31,840)
Parks and recreation	136,438	3,507	-	(132,931)	-	(132,931)
Depreciation unallocated	45,878	-	-	(45,878)	-	(45,878)
Total governmental activities	<u>382,622</u>	<u>34,038</u>	<u>-</u>	<u>(348,584)</u>	<u>-</u>	<u>(348,584)</u>
Business-type activities:						
Water	\$ 281,709	\$ 283,449	\$ -	\$ -	\$ 1,740	\$ 1,740
Total business-type activities	<u>281,709</u>	<u>283,449</u>	<u>-</u>	<u>-</u>	<u>1,740</u>	<u>1,740</u>
Total primary government	<u>\$ 664,331</u>	<u>\$ 317,487</u>	<u>\$ -</u>	<u>\$ (348,584)</u>	<u>\$ 1,740</u>	<u>\$ (346,844)</u>
General Revenues:						
Taxes:						
Property taxes, levied for general purposes			\$ 334,284	\$ -	\$ -	\$ 334,284
Investment income			2,297	2,159		4,456
Miscellaneous income			11,847	1,020		12,867
Total general revenues, special items transfers			<u>348,428</u>	<u>3,179</u>		<u>351,607</u>
Changes in Net Assets			(156)	4,919		4,763
Net assets, beginning			1,027,291	822,989		1,850,280
Net assets, ending			<u>\$ 1,027,135</u>	<u>\$ 827,908</u>		<u>\$ 1,855,043</u>

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

State of New Mexico
Timberon Water and Sanitation District
Balance Sheet - Governmental Funds
June 30, 2004

	<u>General Fund</u>
Assets	
Current assets:	
Cash on deposit	\$ 247,048
Taxes receivable	16,781
Inventory	<u>6,041</u>
Total Assets	<u>\$ 269,870</u>
Liabilities	
Liabilities	
Accounts payable	\$ 2,256
Payroll and sales tax payable	241
Compensated absences payable	<u>2,819</u>
Total Liabilities	5,316
Fund Balance	
Fund Balance	
Unreserved/undesignated	<u>264,554</u>
Total fund balance	<u>264,554</u>
Total Liabilities and Fund Balance	<u>\$ 269,870</u>

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

State of New Mexico
Timberon Water and Sanitation District
Statement of Revenue and Expenditures, and Changes in Fund Balance
All Government Fund Types
For the Year Ended June 30, 2004

	General Fund
Revenues:	
Taxes	\$ 334,284
Charges for Services	30,531
Merchandise Sales	3,507
Interest Income	2,297
Miscellaneous	11,847
Total Revenues	382,466
Expenditures:	
General Government	168,466
Streets and Facilities	31,840
Parks and Recreation	63,240
Golf Course	73,198
Capital Outlay	-
Total Expenditures	336,744
Excess (Deficiency) of Revenues Over Expenditures	45,722
Other Financing Sources (Uses)	
Transfers In (Out)	-
Net Other Financing Sources (Uses)	-
Net Change in Fund Balance	45,722
Fund Balances, Beginning	218,832
Fund Balances, Ending	\$ 264,554

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

State of New Mexico
Timberon Water and Sanitation
Reconciliation of the Governmental Funds Balance Sheet
to the Government - Wide Statement of Net Assets
June 30, 2004

Total Fund balance-Governmental Funds	\$ 264,554
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Amounts reported for governmental activities in the Statement
Net Assets are different because:

Capital assets used in governmental activities are not current
financial resources and, therefore, are not reported in the
Governmental Funds Balance Sheet

These assets consist of:

Furniture, fixtures and equipment
Accumulated depreciation

\$ 1,334,864	
<u>(572,283)</u>	<u>762,581</u>

Total Ending Net Assets	<u>\$ 1,027,135</u>
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The accompanying notes are an integral part of the financial statements.

State of New Mexico
Timberon Water and Sanitation District
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the
Statement of Activities
June 30, 2004

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

Net change in fund balances - total government funds	\$ 45,722
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceed depreciation expense:

Capital outlay	\$ -	
Depreciation	<u>(45,878)</u>	<u>(45,878)</u>

Change in net assets of governmental activities	<u>\$ (156)</u>
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The accompanying notes are an integral part of the financial statements.

Timberon Water and Sanitation District
Statement of Revenues and Expenditures and Changes in Fund Balance
Budgeted to Actual (Non-GAAP Budgetary Basis)
Governmental Fund Types
For the Year Ended June 30, 2003

	General Fund			
	Original BUDGET	Final BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes	\$ 305,608	\$ 305,608	\$ 326,493	\$ 20,885
Charges for Services	25,491	25,491	30,531	5,040
Interest Income	2,000	2,000	2,297	297
Merchandise Sales	4,700	4,700	3,507	(1,193)
Miscellaneous	9,080	9,080	11,852	2,772
Total Revenues	<u>346,879</u>	<u>346,879</u>	<u>374,680</u>	<u>27,801</u>
Expenditures:				
General Government	194,630	197,930	174,163	23,767
Streets and Facilities	40,223	40,223	31,840	8,383
Parks and Recreation	77,704	65,704	63,314	2,390
Golf Course	84,339	84,339	72,511	11,828
Capital Outlay	-	-	-	-
Total Expenditures	<u>396,896</u>	<u>388,196</u>	<u>341,828</u>	<u>46,368</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(50,017)</u>	<u>(41,317)</u>	<u>32,852</u>	<u>74,169</u>
Other Financing Sources (Uses)				
Transfers In (Out), Net	-	-	-	-
Net Other Financing Sources (Uses)	-	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(50,017)</u>	<u>(41,317)</u>	<u>32,852</u>	<u>\$ 74,169</u>
Fund Balances, Beginning			<u>218,832</u>	
Fund Balances, Ending			251,684	
Adjustments to conform with GAAP:				
Increase (decrease) in receivables			7,791	
Increase (decrease) in inventory			736	
(Increase) decrease in accounts payable			2,547	
(Increase) decrease in payroll payables			1,796	
Fund Balance June 30 (GAAP Basis)			<u>\$ 264,554</u>	

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

State of New Mexico
Timberon Water and Sanitation District
Statement of Net Assets - Proprietary Fund
June 30, 2004

	<u>Water Fund</u>
<u>Assets</u>	
Cash	\$ 68,235
Accounts Receivable, net of uncollectible	35,010
Fixed Assets, net of accumulated depreciation	<u>740,304</u>
 Total Assets	 <u>\$ 843,549</u>
<u>Liabilities</u>	
Accounts Payable	3,081
Payroll and sales tax payable	653
Compensated absences payable	2,616
Refundable Line Extension Payables	<u>9,291</u>
Total Liabilities	<u>15,641</u>
<u>Net Assets</u>	
Investment in Capital Assets	704,304
Unrestricted	<u>123,604</u>
Total Net Assets	<u>\$ 827,908</u>

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

State of New Mexico
Timberon Water and Sanitation District
Statement of Revenues and Expenses and Changes in Fund Net Assets
Proprietary Fund Type
For the Year Ended June 30, 2003

	Water Fund	Total
Operating Revenues:		
Water Service	\$ 139,101	\$ 139,101
Stand-By Fees	144,348	144,348
Interest income	2,159	2,159
Miscellaneous	<u>1,020</u>	<u>1,020</u>
Total Operating Revenues	286,628	286,628
Operating Expenses:		
Personnel Expenses	127,697	127,697
Operating Expenses	95,237	95,237
Depreciation	<u>58,775</u>	<u>58,775</u>
Total Operating Expense	<u>281,709</u>	<u>281,709</u>
Operating Income (Loss)	4,919	4,919
Non-Operating Revenue (Expense):		
Transfers In (Out)	<u>-</u>	<u>-</u>
Total Non-Operating Revenue (Expense)	-	-
Net Income (Loss)	4,919	4,919
Total net assets-beginning	<u>822,989</u>	<u>839,628</u>
Total net assets-ending	<u>\$ 827,908</u>	<u>\$ 844,547</u>

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

State of New Mexico
Timberon Water and Sanitation District
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended June 30, 2004

	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Customers	\$ 286,440
Cash Paid to Suppliers and Others	(222,098)
Interest Received	<u>2,158</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	66,500
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Outlay	<u>(67,474)</u>
NET CASH PROVIDED (USED) FOR INVESTING ACTIVITIES	(67,474)
NET INCREASE (DECREASE) IN CASH	(974)
CASH, July 1, 2003	<u>69,209</u>
CASH, June 30, 2004	<u>\$ 68,235</u>

**RECONCILIATION OF NET INCOME TO NET CASH
 PROVIDED BY OPERATING ACTIVITIES**

Net Income (Loss)	\$ 4,919
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	58,775
(Increase) Decrease in Receivables	1,971
Increase (Decrease) in Accounts Payable	(634)
Increase (Decrease) in Other Payables	<u>1,469</u>
Net Cash Provided by Operating Activities	<u>\$ 66,500</u>

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

Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Timberon Water and Sanitation District (District) was incorporated pursuant to NMSA 73-21 1978 when members of the District voted to create a special water district. Conditions for incorporation were met and an election was held in 1990 and a New Mexico District Judge ordered formation of the District. The purpose of the District is to pursue the acquisition, operation and maintenance of assets necessary to provide the Timberon region with water supply, roads, parks, recreational facilities and sanitation facilities.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

This summary of significant accounting policies of the Timberon Water and Sanitation District is presented to assist in the understanding of the Timberon Water and Sanitation District's financial statements. The financial statements and notes are the representation of management who is responsible for their integrity and objectivity. The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, 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 District, 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, or whether the activity is conducted within the geographic boundaries of the government and is generally available to 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 relations, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, no potential component units were included in the District's reporting entity.

B. Implementation of the New Accounting Pronouncement

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments. Certain significant changes in the statement include a change in the financial statements to focus on major funds. This and other changes in the accompanying financial statements including the notes were implemented by the Timberon Water and Sanitation District...

C. Government Wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported by taxes and intergovernmental revenue are reported separately from business-like activities, which rely to a significant extent on fees and charges for support.

State of New Mexico
Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes charges to customers or applicants, who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which it was levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund,

The District reports the following major proprietary funds:

The Water Fund is used to account for the activities of the District's water operations.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, the unrestricted resources as needed.

D. Budgets

Budgets for all funds are adopted on a regulatory prescribed cash basis. The level of budgetary control is by fund total.

Budgetary information is presented as amended, the amendments being adopted in a legally prescribed manner.

All appropriations lapse at year-end.

State of New Mexico
Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004

E. Cash

The District pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in the New Mexico State Treasurer's Local Government Pooled Investment Fund.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the capital assets in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Depreciation of building, improvements, equipment and vehicles in the proprietary fund types is computed using the straight-line method over the estimated useful lives as follows:

Water system	20-50 years
Equipment items	1-20 years
Vehicles	5-8 years

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Computer software is included in capital assets and is being capitalized and depreciated over its estimated useful life.

H. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. In accordance with the provisions of statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

I. Fund Equity

Reserves represent those portions of fund equity not appropriate for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

STATE OF NEW MEXICO
Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004

J. Interfund Transactions

Within the governmental funds, quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers in the governmental funds. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

The government wide financial statements eliminate all interfund transfers.

Note 2. Legal Compliance - Budgets

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

In the late winter or early spring, the District prepares a budget calendar, thus starting the budgetary process for the upcoming July 1 fiscal year. Budget requests forms are distributed to District departments and local service agencies with a specified completion date. Legally mandated advance notices are formally published for grant availability and other purposes once budget hearings have been scheduled. The budget hearings are then held with all District department heads and local service agency representatives. Generally, in late May or early June, a budget meeting is held for tentative approval of the completed budget. After tentative approval at the District level, the budget is submitted to the New Mexico Department of Finance and Administration (DFA) for approval of a temporary operational budget beginning July 1. Immediately after July 1, when ending cash balances for the preceding fiscal year have been accurately ascertained, a final hearing is convened for finalization of the budget, and is resubmitted to DFA for formal approval. None of the above budgetary processes are legally required to occur at any specified time; however, DFA requires that the time frame be such that they (DFA) render their final budget approval no later than September 1 of the budget year in question.

During the course of the fiscal year, the District prepares monthly budget reports, and further, holds a mid-year budget review in December or January. Under New Mexico State law, each year's budget appropriation legally lapses at year end.

Budgetary Compliance - The District's level of budgetary control is at the department level. As such, each department must not over-expend its budgeted departmental total. However, over-expenditures are permitted for single line-items within a department as long as other line-items are sufficiently under- expended to an extent that the department's total budget is not exceeded. Likewise, if a fund has no departments, single line items within the fund may be over expended, but the budgeted fund total may not be exceeded.

Actual fund revenues may be either over or under the budget amounts; however, the variance is required to be responsible, 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 increase and decreases can only be accomplished by resolution, followed by DFA approval. Similarly, budget transfers must follow the same procedure.

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 this report are prepared on a cash basis to compare actual revenues and expenditures with a cash budget.

Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004

Note 3. Deposit and Investment Accounts

The District invests its funds in accordance with State statutes which require that financial institutions pledge collateral consisting of approved federal or state securities whose market value is equal to at least 50% of the deposits in excess of FDIC insurance coverage. In accordance with State statutes, the District may have deposits only in financial institutions, federal direct obligations, or New Mexico State Treasurer's Local Government Pooled Investment Plan. As of the balance sheet date the District had \$29,483 in financial institutions and \$285,000 invested in the New Mexico State Treasurer's Local Government Pooled Investment. Governmental Accounting Standards Board Statement #3, which requires deposits and investments to be classified in three categories of risk. Classified in category 1 indicated that the exposure for deposits to custodial credit risk is low. The level of potential custodial risk for deposits and investments in category 2 and are the highest for deposits in category 3.

Category 1: Includes cash and investments that are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2: Includes cash and investments that are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Includes cash and investments that are insured or collateralized with securities held by the pledging financial institution's trust department or agent in but not in the entity's name.

Funds invested with The New Mexico State Treasurer's Local Government are not subject to this statement. The District invests excess cash in the State Treasurer Local Government Investment Pool. The Pool's investments are valued at fair value based on quoted market prices as of the valuation date. The New Mexico State Treasurer Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued or backed by the United States Government or by its departments or agencies and are either direct obligations of the United States government or agencies sponsored by the United States Government. The Local Government Investment Pool investments are monitored by the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the fund is voluntary. The following is a summary of the cash:

Depository	Account Type	Account Type	Risk Class	Per Depository	Outstanding Deposits	Outstanding Checks	Financial Statements
Unrestricted Cash:							
Western Bank	Checking	Operations	1	\$ 22,848	\$ 13,231	\$ (24,827)	\$ 11,252
Western Bank	Checking	Operations	1	10,529	-	-	10,529
Western Bank	Checking	Clearing	1	7,441	261	-	7,702
New Mexico State Treasurer	Checking	Investment	N/A	285,000	-	-	285,000
Total unrestricted cash				325,818	13,492	(24,827)	314,483
Petty cash							800
Total cash on hand and on deposit							\$ 315,283
Less: Collateralization not required				285,000			
Uncollateralized Cash				30,283			
Less: FDIC Insurance				(30,283)			
Total uninsured or uncollateralized cash				\$ -			

**State of New Mexico
Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004**

Note 4. Liability for Compensated Absences

Vacation leave is earned by employees during the year based on time worked and is non-cumulative. Vacation leave due, if any, is paid on an employee's termination. The accrued value of the vacation leave days due to employees at June 30, 2004 is \$5,435. The following is a summary of current activity:

	Balance 07/01/03	Addds	Deletions	Balance 06/30/04
Compensated Absences	\$ 5,814	\$ 6,561	\$ 6,940	\$ 5,435

The general fund and the enterprise fund are responsible for liquidating the outstanding compensated absence liability. On June 30, 2004 the General Fund had an outstanding compensated absence balance outstanding of \$2,819 and the enterprise fund balance was \$2,616.

Sick leave is also earned by employees based on length of employment during the year and is also non-cumulative. Compensation for sick leave is limited to time-off and is not monetarily compensated.

Note 5. Retiree Health Care Act Contributions

The Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive care group health insurance for persons who have retired from certain public service in New Mexico. As authorized under Section 9D. of Chapter 6, Laws of 1990, the District has elected not to participate in the program for the current year.

Note 6. Defined Benefit Pension Plan

Plan Description. Substantially all of the District full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

Funding Policy. Non-law enforcement plan members are required to contribute 7.00% of their gross straight-time salary. The District is required to contribute 7.00% of the gross covered salary. The contribution requirements of plan members and the District's are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The District's contributions to PERA for the year ended June 30, 2002, 2003 and 2004 were \$13,594, \$15,575 and \$15,217 respectively, equal to the amount of the required contributions for the year.

Note 7. Property Tax

The District's property tax is levied for the purpose of providing funds for operations, debts service and capital outlay each November on the assessed value on the county tax rolls as of the prior January 1 for all residential and non-residential property located in the District. The assessed taxable value of the roll as of January 1, 2002 was \$11,691,344 with the assessment rate at \$18.113 for residential and \$23.073 for non-residential property per \$1,000 of valuation. Total taxes collected for the year ended June 30, 2004 were \$334,284.

State of New Mexico
Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004

Note 8. Changes in Capital Assets

A summary of changes in capital assets by major asset class is composed of the following:

Government Activities:	<u>June 30</u> <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30</u> <u>2004</u>
Capital assets not being depreciated:				
Land	\$ 139,205	\$ -	\$ -	\$ 139,205
Capital assets being depreciated:				
Building & improvements	627,415	-	-	627,415
Furniture, fixtures and equipment	568,243	-	-	568,243
Less accumulated depreciation:				
Building & improvements	(195,229)	(16,340)	-	(211,569)
Furniture, fixtures and equipment	(331,175)	(29,538)	-	(360,713)
TOTAL	<u>\$ 808,459</u>	<u>\$ (45,878)</u>	<u>\$ -</u>	<u>\$ 762,581</u>

Business Type Activities:	<u>June 30</u> <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30</u> <u>2004</u>
Capital assets not being depreciated:				
Land	\$ 20,500	\$ -	\$ -	\$ 20,500
Capital assets being depreciated:				
Buildings	10,282	-	-	10,282
Furniture, fixtures and equipment	974,804	67,476	-	1,042,280
Less accumulated depreciation:				
Buildings	(1,512)	(252)	-	(1,764)
Furniture, fixtures and equipment	(272,471)	(58,523)	-	(330,994)
TOTAL	<u>\$ 731,603</u>	<u>\$ 8,701</u>	<u>\$ -</u>	<u>\$ 740,304</u>

The District has elected not to record certain infrastructure assets consisting of various gravel roads which is recommended but not required for Tier 3 governments by GASB Statement 34.

Note 9. Investments

The District has not authorized by ordinance or other method the investment of District funds other than disclosed in Note 1-E.

Note 10. Risk Management and Litigation

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained insurance through a commercial carrier to insure against potential losses and claims. The premiums are based on payroll and other expenditures, and are not directly related to claims filed. The policies are retrospectively rated and premiums may be adjusted after year end, based on the ultimate level of expenditures.

Timberon Water and Sanitation District
Notes to the Financial Statements
June 30, 2004

Note 11. Receivables

The District has amounts receivable that are classified as accounts receivable or due from government units as of the balance sheet date. The amounts receivable as of June 30, 2004 were:

	General Fund	Utility Fund
Property Taxes	\$ 16,781	\$ -
Water Service Receivables, Net of Allowance for uncollectible of \$454	-	9,147
Stand-By Receivables, Net of Allowance for bad debts of \$247,408	-	25,863
	-	25,863
Total	\$ 16,781	\$ 35,010

Note 12. Income Taxes

As a local government entity, the District is not subject to federal or state income tax.

Note 13. Reconciliation of Fund Balance to Beginning Net Assets

The following is a reconciliation of the beginning net assets of the government-wide financial statements as of July 1, 2003:

General Fund Balance June 30, 2003	\$ 218,832
Capital Assets June 30, 2003	808,459
Net Assets July 1, 2003	\$ 1,027,291

Note 14. Line Extension Agreements Payable

The Line extension agreement payables are originated when a property owner of the District agrees to pay the costs associated with the extension of an existing water line to the existing property owner's lot. The District agrees to repay the owner by funding the repayment from collection of standby water fees from those owners who benefited from the line extension, but have not connected to the water lines and will not incur line extension costs when the decision is made to connect water service. Each year the District accumulates the stand-by water fees from those benefiting owners and uses those funds to repay the owner who agreed to extend the line. The repayment has no stated schedule and is dependent on the payment of stand-by fees from various owners. The following is a summary of the activity for the year ended June 30, 2004:

	Balance 07/01/03	Adds	Deletions	Balance 06/30/04
Line Extension Agreements Payable	\$ 8,792	\$ 1,435	\$ 936	\$ 9,291

Timberon Water and Sanitation District
Statement of Revenues, Expenses and Changes in Retained Earnings-
Budgeted to Actual (Non-GAAP Budgetary Basis)- Utility Enterprise Fund
For the Year Ended June 30, 2004

Water Fund				
	Original Budget	Final Budget	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:				
Water Service	\$ 125,000	\$ 125,000	\$ 136,675	\$ 11,675
Stand-By Fees	155,000	155,000	148,688	(6,312)
Interest	2,000	2,000	2,159	159
Miscellaneous	250	250	1,020	770
Total Revenues	<u>282,250</u>	<u>282,250</u>	<u>288,542</u>	<u>6,292</u>
Expenses:				
Personnel Expenses	106,232	120,132	126,670	6,538
Operating Expenses	88,663	98,428	96,807	(1,621)
Capital Outlay	106,000	81,270	66,039	(15,231)
Total Expenses	<u>300,895</u>	<u>299,830</u>	<u>289,516</u>	<u>(10,314)</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(18,645)</u>	<u>(17,580)</u>	<u>(974)</u>	<u>16,606</u>
Other Financing Sources (Uses)				
Transfers In (Out), Net	-	-	-	-
Net Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenses and Other Uses	<u>(18,645)</u>	<u>(17,580)</u>	<u>(974)</u>	<u>16,606</u>
Net Assets, Beginning	<u>-</u>	<u>-</u>	<u>822,989</u>	<u>(822,989)</u>
Net Assets, Ending	<u>\$ (18,645)</u>	<u>\$ (17,580)</u>	<u>822,015</u>	<u>\$ (806,383)</u>
Adjustments to conform with GAAP:				
Increase (decrease) in receivables			(1,971)	
(Increase) decrease in accounts payable			634	
(Increase) decrease in other payables			(1,469)	
Reclass Capital Outlay			67,474	
Depreciation Reclass			(58,775)	
Net Assets, June 30, 2004 (GAAP Basis)			<u>\$ 827,908</u>	

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Domingo P. Martinez, State Auditor
Members of the Board of Directors
Citizens of the Timberon Water and Sanitation District
Citizens of the State of New Mexico

I have audited the governmental activities, the business type activities, and each major fund and the budgetary comparisons of the Timberon Water and Sanitation District, as of and for the year ended June 30, 2004, and have issued my report thereon dated January 14, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether the Timberon Water and Sanitation District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of audit findings as item 2004-1.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Timberon Water and Sanitation District's internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in my judgment, could adversely affect the Timberon Water and Sanitation District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. I noted no matters involving the internal control over financial reporting and its operation that I considered to be a material weakness.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the management, the Timberon Water and Sanitation District, the Office of the State Auditor, the New Mexico State Legislature and its committees, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than the specified parties.


January 14, 2005

**Timberon Water and Sanitation District
Schedule of Audit Findings, Recommendations,
Other Disclosures and Exit Conference
June 30, 2004**

STATUS OF PRIOR YEAR FINDINGS

2002-1 Inaccurate Budget Reports – Resolved
2002-3 Capital Expenditures Relating to the Cost of Drilling Water Wells-Resolved

CURRENT YEAR FINDINGS

04-1 Late Audit Report

Condition: The audit report was not delivered to the Office of the State Auditor by the December 1, 2004 deadline.

Criteria: State Audit Rule requires submission the EVSWA audit by December 1, 2004.

Effect: Noncompliance with the State Audit Rule.

Cause: Due to usual circumstances the Auditor was not able to complete the audit in a timely manner.

Recommendation: Require the Auditor to complete the audit in a timely manner.

Response: We will require the auditor to complete the audit in a timely manner.

Other Disclosures – The Timberon Water and Sanitation District is responsible for the contents. However the financial statements and notes to the financial statements were prepared by the independent certified public accountant performing the audit.

An exit conference was held in the offices of the Timberon Water and Sanitation District in Timberon, New Mexico on July 11, 2005. Those attending were Betty Phillips, Treasurer of the Board, Debbie Goss, Office Supervisor and Dan Austin CPA. The financial statements prepared by the Contract Auditor, the audit report, and findings were discussed.