

# TIMBERON WATER AND SANITATION DISTRICT

Ruidoso, New Mexico

## Financial Statements

June 30, 2005



Certified Public  
Accountants

Gilmore, Gannaway,  
Andrews, Smith  
& Co., LLC

4097



**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

Domingo P. Martinez, CGFM  
State Auditor

Carl M. Baldwin, CPA, CFE  
Deputy State Auditor

February 16, 2006

SAO Ref. No. 4097

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

**SUBJECT:** Audit Report—Timberon Water & Sanitation District—2004-2005 Fiscal Year—  
Prepared by Gilmore, Gannaway, Andrews, Smith & Co., LLC

Your agency audit report was received by the Office of the State Auditor (Office) on December 1, 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, and the Department of Finance and Administration; 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.J.(3)(d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies.*

  
DOMINGO P. MARTINEZ, CGFM  
STATE AUDITOR

cc: Legislative Finance Committee  
Department of Finance and Administration-  
Local Government Division  
Gilmore, Gannaway, Andrews, Smith & Co., LLC

TIMBERON WATER AND SANITATION DISTRICT

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**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**FUNCTION OF THE ENTITY AND OFFICIAL ROSTER**  
June 30, 2005

**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, and recreational facilities to the citizens of the District.

**Official Roster**

<u>Elected Officials</u>	<u>Title</u>
Joan Schug	Chairman
Tom Tannehill	Vice Chairman
Betty Phillips	Treasurer
Sidney Benson	Director
Larry Hanson	Director

  

<u>Management</u>	<u>Title</u>
Bill Gideon	General Manager
Deborah J. Goss	Office Administrator and Secretary

**Roswell**  
2724 Wilshire Boulevard  
Post Office Drawer 1517  
Roswell, New Mexico 88202-1517  
www.ggas.com  
(505) 622-5200 ♦ (800) 748-3662  
Fax: (505) 622-5206



**Gilmore, Gannaway,  
Andrews, Smith & Co., LLC**

Certified Public Accountants

**Clovis**  
800 Mitchell  
Post Office Box 1872  
Clovis, New Mexico 88102-1872  
www.ggas.com  
(505) 762-3897 ♦ (866) 762-3897  
Fax: (505) 763-0917

## INDEPENDENT AUDITORS' REPORT

November 22, 2005

Board of Directors  
Timberon Water and Sanitation District  
and Mr. Domingo Martinez, CGFM  
New Mexico State Auditor

We 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, 2005, 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, 2005, listed as supplementary information in the table of contents. These financial statements are the responsibility of the Timberon Water and Sanitation District's management. Our responsibility is to express an opinion 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our 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, 2005, and the respective changes in the financial position and cash flows where applicable and the respective budgetary comparisons for the year ended in conformity with accounting principles generally accepted in the United States of America.

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*, we have also issued a report dated November 29, 2005 on our consideration of the Timberon Water and Sanitation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**GILMORE, GANNAWAY, ANDREWS, SMITH & CO., LLC**

*Gilmore, Gannaway, Andrews, Smith & Co., LLC*

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
June 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash on deposit	\$ 216,285	\$ 56,524	\$ 272,809
Taxes receivable	13,843	-	13,843
Receivables, net of uncollectible accounts	-	45,789	45,789
Inventory	6,317	-	6,317
<i>Total current assets</i>	236,445	102,313	338,758
<b>Noncurrent Assets</b>			
Capital assets, net of depreciation	764,537	765,221	1,529,758
<i>Total assets</i>	1,000,982	867,534	1,868,516
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Current Liabilities</b>			
Accounts payable	2,256	3,081	5,337
Accrued payroll	6,517	4,555	11,072
Payroll and sales tax payable	362	767	1,129
Compensated absences payable	3,318	2,319	5,637
<i>Total current liabilities</i>	12,453	10,722	23,175
<b>Non-Current Liabilities</b>			
Line extension agreements payable	-	13,018	13,018
<i>Total liabilities</i>	12,453	23,740	36,193
<b>NET ASSETS</b>			
Invested in capital assets	764,537	765,221	1,529,758
Unrestricted net assets	223,992	78,573	302,565
<i>Total net assets</i>	988,529	843,794	1,832,323
<b>Total liabilities and net assets</b>	<b>\$ 1,000,982</b>	<b>\$ 867,534</b>	<b>\$ 1,868,516</b>

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



**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Fees and Charges for Services	Capital Grants	Governmental Activities	Business-Type Activities	
<b>Governmental Activities</b>						
General government	\$ 327,328	\$ 16,444	\$ -	\$ (310,884)	\$ -	\$ (310,884)
Golf Course	\$ 76,654	\$ 24,490	-	(52,164)	-	(52,164)
Streets and facilities	4,747	1,297	-	(3,450)	-	(3,450)
Parks and recreation	2,543	2,071	-	(472)	-	(472)
<i>Total governmental activities</i>	411,272	44,302	-	(366,970)	-	(366,970)
<b>Business-Type Activities</b>						
Water	304,004	296,841	20,610	-	13,447	13,447
<i>Total business-type activities</i>	304,004	296,841	20,610	-	13,447	13,447
<b>Total district</b>	<b>\$ 715,276</b>	<b>\$ 341,143</b>	<b>\$ 20,610</b>	<b>\$ (366,970)</b>	<b>\$ 13,447</b>	<b>\$ (353,523)</b>
<b>GENERAL REVENUES</b>						
Property taxes, levied for general purposes				\$ 325,756	\$ -	\$ 325,756
Investment income				2,608	2,439	5,047
<i>Total general revenues</i>				328,364	2,439	330,803
Changes in net assets				(38,606)	15,886	(22,720)
Net assets, year beginning				1,027,135	827,908	1,855,043
<b>Net assets, year ending</b>				<b>\$ 988,529</b>	<b>\$ 843,794</b>	<b>\$ 1,832,323</b>

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, 2005

	<u>General Fund</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash on deposit	\$ 216,285
Taxes receivable	13,843
Inventory	6,317
<b>Total Assets</b>	<b>\$ 236,445</b>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 2,256
Accrued payroll	6,517
Payroll and sales tax payable	362
Compensated absences payable	3,318
<i>Total current liabilities</i>	12,453
 <b>Fund Balance</b>	
Unrestricted net assets	223,992
<i>Total net assets</i>	223,992
<b>Total liabilities and net assets</b>	<b>\$ 236,445</b>

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

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
 June 30, 2005

Total Fund Balance-Governmental Funds \$ 223,992

Amounts reported for governmental activities in the Statement of  
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	1,379,524
Accumulated depreciation	(614,987)
	764,537
<b>Total ending net assets</b>	<b>\$ 988,529</b>

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  
June 30, 2005

	2005
<b>REVENUES</b>	
Taxes	\$ 325,756
Charges for services	35,114
Merchandise sales	2,588
Interest income	2,608
Miscellaneous	6,600
<i>Total revenues</i>	372,666
 <b>EXPENDITURES</b>	
General government	284,782
Streets and facilities	4,747
Parks and recreation	2,543
Golf course	76,654
Capital outlay	44,502
<i>Total expenditures</i>	413,228
<i>Excess of revenues over expenditures</i>	(40,562)
Net change in fund balance	(40,562)
Fund balances, year beginning	264,554
<b>Fund balances, year ending</b>	<b>\$ 223,992</b>

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, 2005

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

Net change in fund balances - Total Government Funds	\$	(40,562)
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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 outlays exceed depreciation expense.

Capital outlay		44,661
Depreciation		(42,705)
		1,956
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(38,606)</b>

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, 2005

	Water Fund
<b>ASSETS</b>	
Cash on deposit	\$ 56,524
Receivables, net of uncollectible accounts	45,789
<i>Total current assets</i>	102,313
Capital assets, net of depreciation	765,221
<i>Total assets</i>	867,534
<b>LIABILITIES AND NET ASSETS</b>	
Accounts payable	3,081
Accrued payroll	4,555
Payroll and sales tax payable	767
Compensated absences payable	2,319
<i>Total current liabilities</i>	10,722
Line extension agreements payable	13,018
<i>Total liabilities</i>	23,740
<b>Net Assets</b>	
Invested in capital assets	765,221
Unrestricted net assets	78,573
<i>Total net assets</i>	\$ 843,794
<b>Total liabilities and net assets</b>	<b>\$ 867,534</b>

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

STATE OF NEW MEXICO  
TIMBERON WATER AND SANITATION DISTRICT  
STATEMENT OF ACTIVITIES - WATER FUND  
June 30, 2005

	Water Fund
<b>OPERATING REVENUES</b>	
Water service	\$ 130,338
Stand-by fees	140,889
Interest income	2,439
Miscellaneous	25,614
Grant income	20,610
<i>Total operating revenues</i>	319,890
 <b>OPERATING EXPENSES</b>	
Personnel expenses	140,452
Operating expenses	107,772
Depreciation	55,780
<i>Total operating expense</i>	304,004
 <b>Operating Income</b>	 15,886
 Total net assets, year beginning	 827,908
<b>Total net assets, year ending</b>	<b>\$ 843,794</b>

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  
June 30, 2005

	2005
<b>OPERATING REVENUES</b>	
Receipts from customers	\$ 265,368
Receipts from grants and contracts	20,610
Other receipts	28,053
Payments to or on behalf of employees	(141,113)
Payments to suppliers for goods and services	(112,030)
<i>Net cash (used) by operating activities</i>	60,888
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(72,599)
<i>Net cash (used) by investing activities</i>	(72,599)
Decrease in cash and cash equivalents	(11,711)
Cash and cash equivalents, year beginning	68,235
<b>Cash and cash equivalents, year ending</b>	<b>\$ 56,524</b>
 <b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSE) TO NET CASH (USED) BY OPERATIONS</b>	
Net income (loss)	\$ 15,886
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	55,780
Changes in operating assets and liabilities:	
Accounts receivable	(5,859)
Accounts payable	(4,919)
<i>Net cash provided (used) by operating activities</i>	60,888

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

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**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.

**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 a governing body, 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.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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.



**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The District reports the following major governmental fund:

- 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 fund:

- 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, then unrestricted resources as needed.

**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.

**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.

**Receivables**

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

**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 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.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 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.

**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 non-vesting accumulating rights to receive sick pay benefits.

**Fund Equity**

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

**Classification of Revenues**

The Water District's revenues are classified as operating or non-operating according to the following criteria:

Operating revenues include activities that have the characteristics of an exchange transaction, such as (a) sales and services and (b) contracts and grants.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as (a) appropriations (b) taxes and (c) investment income.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Classification of Expenses**

The Water District's expenses are classified as operating or non-operating according to the following criteria:

Operating expenses include activities that have the characteristics of an exchange transaction, such as (a) employee salaries, benefits and related expenses (b) utilities, supplies and other services (c) professional fees and (d) depreciation expenses related to the District's property, plant and equipment.

Non-operating expense includes activities that have the characteristics of non-exchange transactions, such as interest on capital-related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 – *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

**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. Non-recurring 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.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**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 increases 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.



**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2005

**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 \$34,797 in financial institutions and \$245,000 invested in the New Mexico State Treasurer's Local Government Pooled Investment. 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's 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 funds 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	Per Depository	Adjusting Items	Financial Statements
Western Bank	Checking	\$ 29,014	\$ (6,661)	\$ 22,353
Western Bank	Checking	2,376	(1,162)	1,214
Western Bank	Savings	3,407	-	3,407
New Mexico State Treasurer	Checking	245,000	-	245,000
<i>Total Unrestricted Cash</i>		279,797	(7,823)	271,974
Petty Cash				835
<i>Total cash on hand or deposit</i>				272,809
Less: Unrequired collateralization		(245,000)		
Less: FDIC Insurance		(34,797)		
<i>Total uninsured or uncollateralized</i>				-

**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, 2005 is \$5,637. The general fund and the enterprise fund are responsible for liquidating the outstanding compensated absence liability. On June 30, 2005, the General Fund had an outstanding compensated absence balance outstanding of \$3,318 and the enterprise fund balance was \$2,319.

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.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**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's 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 years ended June 30, 2003, 2004, and 2005 were \$15,575, \$15,217, and \$16,003 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, debt 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, 2005 were \$328,693.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 8: CHANGES IN CAPITAL ASSETS**

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

	June 30, 2004	Additions	Deletions	June 30, 2005
<b>Government activities</b>				
Capital assets not being depreciated:				
Land	139,205	-	-	139,205
Capital assets being depreciated:				
Building and improvements	627,415	-	-	627,415
Furniture, fixtures and equipment	568,243	44,661	-	610,142
Less accumulated depreciation:				
Buildings and improvements	(211,569)	(11,316)	-	(222,885)
Furniture, fixtures and equipment	(360,713)	(31,389)	-	(392,102)
<b>Total</b>	<b>\$ 762,581</b>	<b>\$ 1,956</b>	<b>-</b>	<b>\$ 764,537</b>

	June 30, 2004	Additions	Deletions	June 30, 2005
<b>Business type activities</b>				
Capital assets not being depreciated:				
Land	20,500	-	-	20,500
Capital assets being depreciated:				
Buildings	10,282	-	-	10,282
Furniture, fixtures and equipment	1,042,280	80,697	-	1,122,977
Less accumulated depreciation:				
Buildings and improvements	(1,764)	(252)	-	(2,016)
Furniture, fixtures and equipment	(330,994)	(55,528)	-	(386,522)
<b>Total</b>	<b>\$ 740,304</b>	<b>\$ 24,917</b>	<b>-</b>	<b>\$ 765,221</b>

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, Cash.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**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.

**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, 2005 were:

	General Fund	Utility Fund
Property taxes	13,843	
Water service receivables, net of allowance for uncollectible of \$454		8,822
Stand-by receivables, net of allowance for bad debts of \$293,457		32,047
<b>Total</b>	<b>\$ 13,843</b>	<b>\$ 40,869</b>

**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, 2004:

General Fund Balance June 30, 2004	264,544
Capital Assets June 30, 2004	762,581
<b>Net Assets July 1, 2004</b>	<b>\$ 1,027,135</b>



**STATE OF NEW MEXICO  
TIMBERON WATER AND SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2005**

**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 standby 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 standby fees from various owners. The following is a summary of the activity for the year ended June 30, 2005:

	Balance 7/1/04	Adds	Deletions	Balance 6/30/05
Line Extension Agreements Payable	9,291	5,047	1,320	13,018

**NOTE 15: CONTINGENCIES**

A member of the District requested by letter dated August 14, 2002, an opinion from the New Mexico State Attorney General's office regarding the legality of the tax levy rate charged by the District under New Mexico Statute 4-54-4 NMSA 1978. By letter dated September 24, 2002, they gave legal advice as to the application of the statute and did not issue a formal published opinion. The member asserts that under the statute, the rate cannot be greater than \$10 per \$1,000 valuation. This statutory rate is substantially lower than the current rates of \$18.111 for residential and \$23.073 for commercial properties per \$1,000 valuation. Although no action has been filed at this time, should the member prevail in court, the District would not be able to provide the current level of services under the lower rate. The Board of Directors and legal council believe that the statute cited does not apply to the District and that the Attorney General's advice is based on incomplete facts submitted by the member.

STATE OF NEW MEXICO  
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  
June 30, 2005

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Taxes	\$ 341,538	\$ 341,538	\$ 322,819	\$ (18,719)
Charges for services	33,033	33,033	35,114	2,081
Merchandise sales	500	500	2,588	2,088
Interest income	2,500	2,500	2,608	108
Miscellaneous	6,000	6,000	6,600	600
<i>Total revenues</i>	383,571	383,571	369,729	(13,842)
<b>EXPENDITURES</b>				
General government	251,244	251,244	272,046	(20,802)
Streets and facilities	4,250	4,250	4,747	(497)
Parks and recreation	2,000	2,000	2,543	(543)
Golf course	91,561	91,561	76,654	14,907
Capital outlay	69,025	69,025	44,502	24,523
<i>Total expenditures</i>	418,080	418,080	400,492	17,588
<b>Excess (deficiency) of revenues over expenditures</b>	(34,509)	(34,509)	(30,763)	3,746
Fund balance, year beginning			264,554	
<b>Fund balance, year ending</b>			<b>\$ 233,791</b>	
<b>Adjustments to conform to GAAP</b>				
Increase (decrease) in receivables			(2,938)	
Increase (decrease) in inventory			276	
(Increase) decrease in payables			(7,137)	
<b>Fund balance June 30 (GAAP Basis)</b>			<b>\$ 223,992</b>	

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

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - BUDGETED**  
**TO ACTUAL (NON-GAAP BUDGETARY BASIS) - UTILITY ENTERPRISE FUND**  
June 30, 2005

	Water Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Water service	\$ 163,800	\$ 163,800	\$ 155,203	\$ (8,597)
Stand-by fees	155,000	155,000	140,889	(14,111)
Interest	2,000	2,000	2,439	439
Miscellaneous	750	750	749	(1)
<i>Total revenues</i>	321,550	321,550	299,280	(22,270)
<b>EXPENSES</b>				
Personal expenses	109,132	109,132	112,515	(3,383)
Operating expenses	147,961	147,961	138,297	9,664
Capital outlay	487,294	487,294	74,937	412,357
<i>Total expenses</i>	744,387	744,387	325,749	418,638
<b>Excess (deficiency) of revenues over expenses</b>	(422,837)	(422,837)	(26,469)	(440,908)
<b>Other financing sources (uses)</b>				
Capital Grants	400,000	400,000	20,610	(379,390)
<i>Net other financing sources (uses)</i>	400,000	400,000	20,610	(379,390)
<b>Excess (deficiency) of revenues and other sources over expenses and other uses</b>	(22,837)	(22,837)	(5,859)	16,978
Net assets, year beginning	-	-	822,015	(822,989)
<b>Net assets, year ending</b>	<b>\$ (22,837)</b>	<b>\$ (22,837)</b>	<b>\$ 816,156</b>	<b>\$ (806,011)</b>
<b>Adjustments to conform to GAAP</b>				
Increase (decrease) in receivables			(5,859)	
(Increase) decrease in accounts payable			4919	
Capital outlay			79,438	
Depreciation			(55,780)	
<b>Net assets, June 30, 2005 (GAAP Basis)</b>			<b>\$ 838,874</b>	

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



**Roswell**  
2724 Wilshire Boulevard  
Post Office Drawer 1517  
Roswell, New Mexico 88202-1517  
www.ggas.com  
(505) 622-5200 ♦ (800) 748-3662  
Fax: (505) 622-5206



**Gilmore, Gannaway,  
Andrews, Smith & Co., LLC**

Certified Public Accountants

**Clovis**  
800 Mitchell  
Post Office Box 1872  
Clovis, New Mexico 88102-1872  
www.ggas.com  
(505) 762-3897 ♦ (866) 762-3897  
Fax: (505) 763-0917

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*

November 22, 2005

Mr. Domingo Martinez, CGFM  
New Mexico State Auditor  
and Board of Directors  
Timberon Water and Sanitation District

We 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, 2005, and have issued our report thereon dated November 29, 2005. 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.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Timberon Water and Sanitation District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

#### **Compliance**

As a part of obtaining reasonable assurance about whether the Timberon Water and Sanitation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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 our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of non-compliance that is required to be reported under *Government Auditing Standards*.



Mr. Domingo Martinez, CGFM  
New Mexico State Auditor  
and Board of Directors  
Timberon Water and Sanitation District

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.

**GILMORE, GANNAWAY, ANDREWS, SMITH & CO., LLC**

*Gilmore, Gannaway, Andrews, Smith & Co., LLC*

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**AUDIT FINDINGS, RECOMMENDATIONS, AND OTHER DISCLOSURES**  
June 30, 2005

**PRIOR YEAR FINDINGS**

<b>Prior Year Findings Description</b>	<b>Status</b>
2004-1      Late audit report	Resolved

**CURRENT YEAR FINDINGS**

None

**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 Gilmore, Gannaway, Andrews, Smith & Co., LLC.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
**EXIT CONFERENCE**  
June 30, 2005

An exit conference was held in the offices of the Timberon Water and Sanitation District in Timberon, New Mexico on January 6, 2006 with the following in attendance:

For the Timberon Water and Sanitation District Board of Directors:

Betty Phillips, Treasurer of the Board  
Deborah Goss, Office Supervisor

For Gilmore, Gannaway, Andrews, Smith & Co., LLC:

Charles Fleming, CPA, Engagement Partner

The financial statements and audit report were prepared by Gilmore, Gannaway, Andrews, Smith & Co., LLC.



