

TIMBERON WATER AND SANITATION DISTRICT

STATE OF NEW MEXICO



AUDITED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

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

Domingo P. Martinez, CGFM  
State Auditor

Carl M. Baldwin, CPA, CFE  
Deputy State Auditor

December 4, 2006

SAO Ref. No. 4097

Scott Millar, Chairman  
and  
Members of the Board of Directors  
Timberon Water & Sanitation District  
PO Box 40  
Timberon, NM 88350

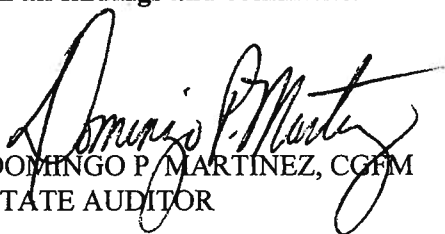
**SUBJECT:** Audit Report—Timberon Water & Sanitation District—2005-2006 Fiscal Year—  
Prepared by JW Anderson & Associates, PC

Your agency audit report was received by the Office of the State Auditor (Office) on November 13, 2006. 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.*

The independent public accountant's findings and comments are included in the audit report on page 29. **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

JW Anderson & Associates, PC  
2113 Warner Circle, Santa Fe, New Mexico 87505-5499  
(505) 827-3500 (800) 432-5517 Fax (505) 827-3512  
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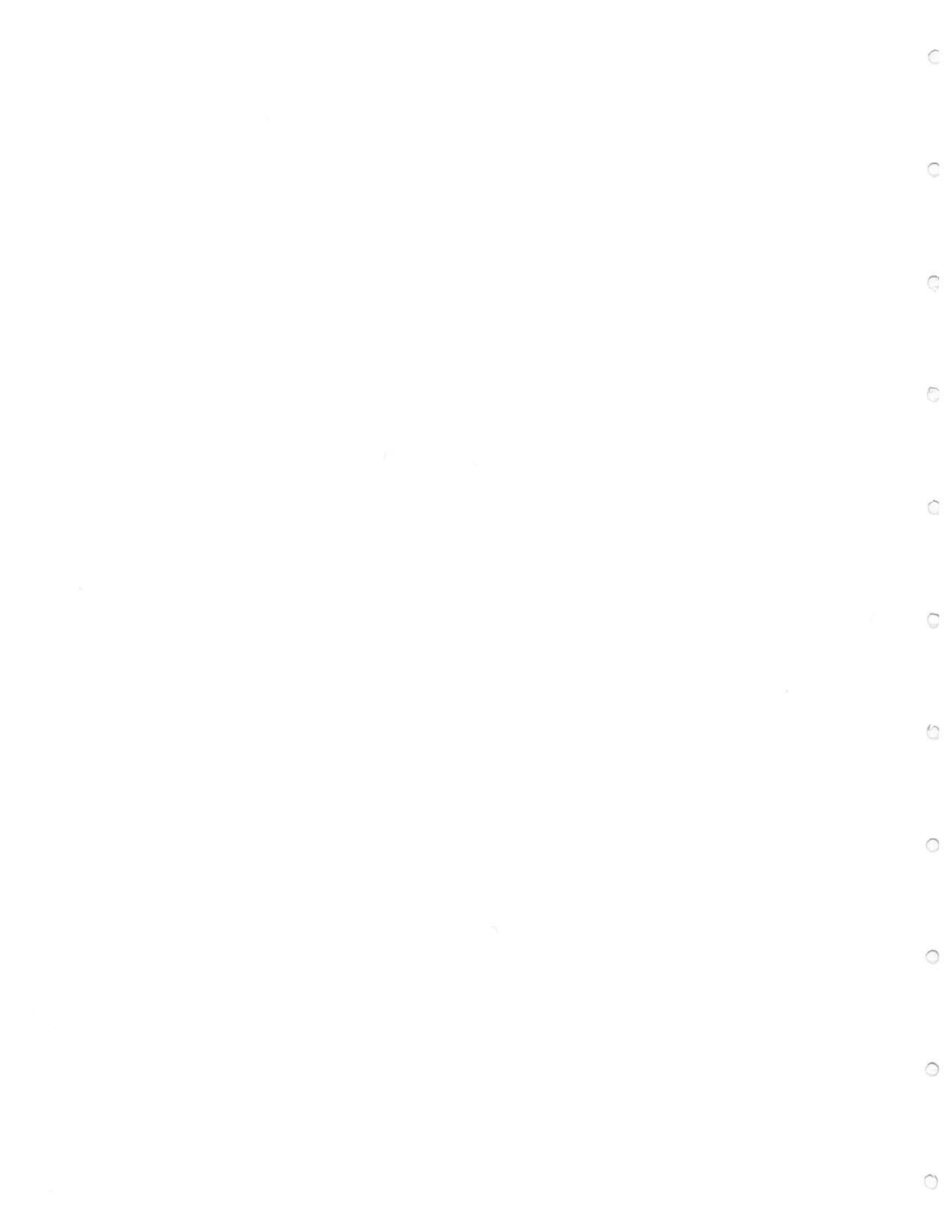
TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
Years Ended June 30, 2006

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## **INTRODUCTORY SECTION**

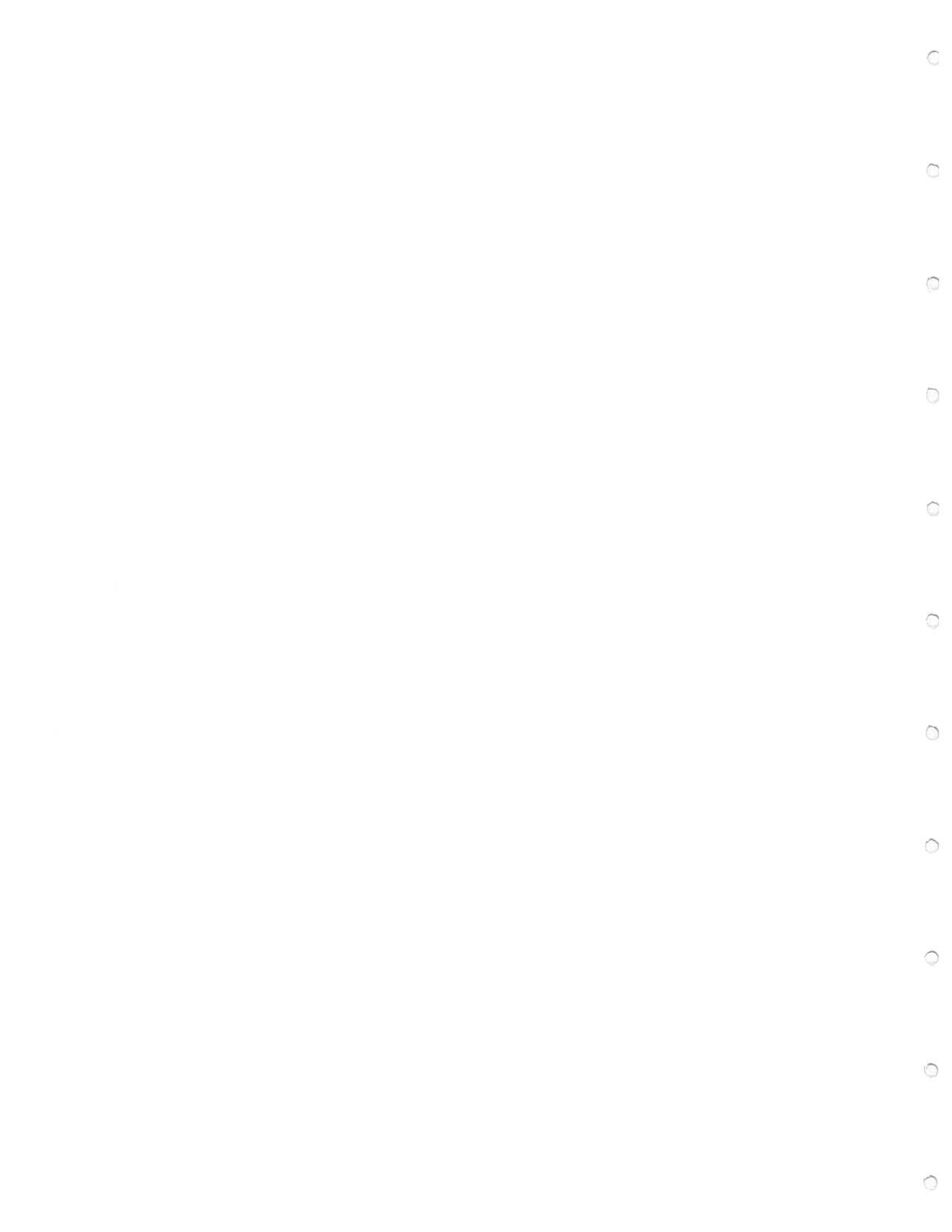




TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO

OFFICIAL ROSTER  
JUNE 30, 2006

<u>Name</u>	<u>Title</u>
<u>Board of Directors</u>	
Scott Millar	Chairman
Sidney Benson	Vice-Chairman
Tom Tannehill	Treasurer
Glenda Gentry	Director
Rick Merrick	Director
<u>District Officials</u>	
Ron Wyatt	General Manager
Debbie Goss	Administrative Secretary



**FINANCIAL SECTION**



# JW Anderson & Associates, PC

## Certified Public Accountants

Coppertree Office Park  
4412 74th Street, Suite F-101  
PO Box 6785  
Lubbock, Texas 79493-6785  
Office (806) 771-4000  
Fax (806) 771-4005

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Timberon Water and Sanitation District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedule presented as supplemental information as noted 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 business-type activities of Timberon Water and Sanitation District as of June 30, 2006 and the change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparison schedule referred to above presents fairly, in all material respects, the budgetary comparison of Timberon Water and Sanitation District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2006 on our consideration of Timberon Water and Sanitation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The *Management's Discussion and Analysis* on pages 5 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on Timberon Water and Sanitation District's basic financial statements and the budgetary comparison schedule which is presented as supplemental information. The supporting schedules on pages 22 through 25 are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*J W Anderson & Associates, PC*

JW Anderson & Associates, PC  
Certified Public Accountants  
Lubbock, Texas  
October 27, 2006

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
Management's Discussion and Analysis

As management of the Timberon Water and Sanitation District (District), we offer the readers of the Timberon Water and Sanitation District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements of the District and additional information provided.

**Financial Highlights**

- The assets of the Timberon Water and Sanitation District exceeded its liabilities at the close of the most recent fiscal year by \$1,692,701 (*net assets*). Of this amount, \$307,640 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to customers and creditors. The remaining \$1,385,061 reflects the District's investment in capital assets.
- The District's total net assets decreased by \$136,226 (7.4%) over the previous year. Of this amount, \$450,763 is attributable to operating activities, while non-operating revenues of \$314,537 in the current fiscal year contributed to the increase.
- Net capital assets of the District decreased \$131,715 (8.6%) after depreciation expense of \$104,973 during the current fiscal year. A key factor in this decrease was a prior period adjustment removing the airstrip from the asset schedule.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Timberon Water and Sanitation District's basic financial statements. The financial statements comprise two components: Basic financial statements and notes to the financial statements. This report contains supplementary information in addition to the basic financial statements themselves.

**Basic financial statements** - The *Basic Financial Statements* are designed to provide readers with a broad overview of the Timberon Water and Sanitation District's finances, in a manner similar to a private-sector business.

Under the provisions of GASB No. 34, Timberon Water and Sanitation District is considered to be a *Special Purpose* government entity. As a Special Purpose governmental entity engaged only in business-type activities, the only financial statements required to be present are those for propriety funds. Accordingly, the District's basic financial statements consist of a Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets, a Statement of Cash Flows, and Notes to Financial Statements. This is the first year the District has presented its financial statements under this reporting model. Consequently, prior year's financial information presented below has been reformatted to conform to the new reporting model. No changes have been made to the prior years' underlying audited financial information.

The *Balance Sheet* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors need to be considered, such as changes in the District's customer and resident base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the District.

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
Management's Discussion and Analysis - Continued

The Timberon Water and Sanitation District's Net Asset category, Invested in Capital Assets, Net of Related Debt, reflects the District's investment in capital assets (e.g., land, buildings, furnishings, equipment); less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its customers; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *Statement of Revenue, Expenses and Changes in Net Assets* presents information to show how Timberon Water and Sanitation District's net assets changed during the fiscal year presented. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The final required statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

**Notes to Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13 to 20 of this report.

**Financial Analysis**

Timberon Water and Sanitation District  
Balance Sheets

	June 30, 2006	June 30, 2005 (Reformatted)
<b>Assets</b>		
Current Assets	\$ 341,166	\$ 338,759
Capital Assets, Net	<u>1,398,042</u>	<u>1,529,757</u>
<b>Total Assets</b>	<u>\$ 1,739,208</u>	<u>\$ 1,868,516</u>
<b>Liabilities</b>		
Current Liabilities	\$ 31,526	\$ 23,176
Noncurrent Liabilities	<u>14,981</u>	<u>15,018</u>
<b>Total Liabilities</b>	<u>46,507</u>	<u>38,194</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	1,385,061	1,516,739
Unrestricted	<u>307,640</u>	<u>313,583</u>
<b>Total Net Assets</b>	<u>1,692,701</u>	<u>1,830,322</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,739,208</u>	<u>\$ 1,868,516</u>



TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
Management's Discussion and Analysis - Continued

The District experienced a net decrease in net assets of \$139,621 during the fiscal year, of which \$136,226 of the loss is attributable to current year operations and \$3,395 to net prior period adjustments. Approximately \$1,385,061, or 81%, of the District's net assets are allocated to equity in the capital assets. The remaining balance of net assets is not subject to external restrictions on how they may be used, and are available to meet the District's ongoing obligation to customers and creditors. At the end of each of the fiscal years, the District is able to report positive balances in all categories of net assets.

Timberon Water and Sanitation District  
Statements of Revenues, Expenses and Changes in Net Assets

	June 30, 2006	June 30, 2005 (Reformatted)
<b>Operating Revenues:</b>		
Water Services and Fees	\$ 330,288	\$ 296,092
Trash Collection	18,593	8,162
Recreational Fees	18,590	21,584
Other Operating Revenue	14,825	13,305
Total Operating Revenues	<u>382,296</u>	<u>339,143</u>
<b>Operating Expenses:</b>		
Administration	182,554	96,590
General Maintenance	83,310	83,073
Parks and Recreation	67,016	69,972
Road Maintenance	26,173	36,177
Water Utilities	282,251	248,225
Cemetery	1,477	814
Golf Course	85,305	76,654
Depreciation	104,973	98,485
Total Operating Expenses	<u>833,059</u>	<u>709,400</u>
Operating Loss	(450,763)	(370,847)
<b>Non-Operating Revenues:</b>		
Property Taxes, Net	300,750	322,469
Other Non-Operating Revenue	13,787	25,657
Total Non-Operating Revenues	<u>314,537</u>	<u>348,126</u>
Decrease in Net Assets	(136,226)	(22,721)
Net Assets at Beginning of Year	1,832,322	1,855,043
Net Prior Period Adjustments	<u>(3,395)</u>	<u>-</u>
Net Assets at Beginning of Year - As Adjusted	<u>1,828,927</u>	<u>1,855,043</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,692,701</u>	<u>\$ 1,832,322</u>

- Total operating revenues increased \$43,153 (21.5%) over the prior year. This increase is the result of additional water and trash collection fees paid during the year.

TIMBERON WATER AND SANITATION DISTRICT  
 STATE OF NEW MEXICO  
 Management's Discussion and Analysis - Continued

- Administration costs and repairs to the water utility infrastructure were predominantly the factors in operating expenses increasing \$123,659 (17.4%). The District also had increases in operational expenses and depreciation to offset the increase in operating revenue.
- The District's operating revenues seldom exceed operating expenses on an ongoing basis. Typically, losses from operations are subsidized by operating and capital grants, non-operating property tax revenues and investment income.

**Budgetary Highlights**

The budget for Timberon Water and Sanitation District was amended in total to reflect changes in administrative expenses and reduce proposed capital outlay. The amended budget resulted in a projected decrease in net assets of \$107,722. During the year, the District's operating revenues were not able to meet budgetary expectations by \$1,989, while operating expenses remained under the budget projection by \$54,495. The capital outlay budgeted did not occur due to not receiving the expected capital grants in the fiscal year. District's budget variance resulted in a favorable \$76,469 total net asset variance over the budgeted decrease in total net assets.

**Capital Asset and Debt Administration**

**Capital Assets** - The Timberon Water and Sanitation District's investment in capital assets as of June 30, 2006, amounts to \$1,398,042 (net of accumulated depreciation of \$1,043,347). This investment in capital assets includes land and land improvements, water utility infrastructure, furnishings and office and maintenance equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 8.6 percent.

Major capital asset events during the current fiscal year included:

- A prior period adjustment to remove the airstrip from the District's asset schedule. The District deeded the airstrip to Otero County in the 2004 fiscal year.

Timberon Water and Sanitation District  
 Capital Assets  
*(Net of Depreciation, By Classification)*

	June 30, 2006	June 30, 2005 (Reformatted)
Land	\$ 147,506	\$ 159,706
Buildings and Improvements	395,998	412,795
Furniture and Equipment	<u>854,538</u>	<u>957,256</u>
	<u>\$ 1,398,042</u>	<u>\$ 1,529,757</u>

Additional information on Timberon Water and Sanitation District's capital assets can be found in the notes to the financial statements.

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
Management's Discussion and Analysis - Continued

**Debt Administration**

At the end of the current fiscal year, Timberon Water and Sanitation District had estimated compensated absences outstanding in the amount of \$5,428. The District also maintains line extension agreements with residents with an outstanding amount of \$12,981. The District does not have any other debt outstanding at the end of the fiscal year.

**Economic and Other Factors**

Management would like to point out that expense of the administration department has doubled from the previous fiscal year. This can be attributed to constant litigation, costing the District \$88,427 this fiscal year. These legal expenses constituted 12% of all the district-wide expenses and 23% of the District's total operating revenue for the fiscal year. Plaintiffs Arlin Gambel, Lyndol Wilcox, Dewayne Beagles and Virgil Beagles have repeatedly amended a lawsuit originally citing misfeasance and malfeasance by the board of directors. Although we feel the original complaint was unfounded, new complaints were added dealing with purchasing, elections, property tax collection, composition of the employee bargaining unit, and other issues. At this point, we must take the threat of bankruptcy by lawsuit seriously because our insurance carriers have not covered any of this litigation.

The District has been working with the New Mexico Environmental Department to improve the water collection and distribution system. The District has several reimbursements grants with the NMED to fund the improvements, but the work has been delayed somewhat because of the District having to pay for litigation expenses rather than using that money for infrastructure improvements.

The flooding during the Labor Day weekend damaged several roads and exposed the underlying water lines. The District has put out bid requests for permanent road repairs with FEMA reimbursing the District for a percentage of the cost. We hope repairs will begin around February, 2007. Until then, the District is temporarily shoring up the roads to maintain the safety of the residents and the water lines.

The District filed a proposed water rate restructure change with the New Mexico Public Regulation Commission (PRC) in September, 2006. This proposal will eliminate the 3,000 gallon allowance per month included in the base rate of \$17.40. Instead, each customer will be billed \$2.69 per one thousand gallon usage beginning with the first gallon used. The new rate will apply to residential and commercial service with ¾" and 1" meters. The proposed changes will be effective in November, 2006 unless protests or the PRC cause a delay in implementation.

**Requests for Information**

This financial report is designed to provide a general overview of the Timberon Water and Sanitation District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, PO Box 40, Timberon, New Mexico, 88350.

## **BASIC FINANCIAL STATEMENTS**

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
BALANCE SHEET  
June 30, 2006

	2006
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 308,600
Accounts Receivable, Less Allowance for Uncollectible Accounts (\$213,813)	32,566
<b>Total Current Assets</b>	<u>341,166</u>
<b>CAPITAL ASSETS</b>	
Land	147,506
Building and Improvements	637,697
Furniture and Equipment	1,656,186
Allowance for Depreciation	(1,043,347)
	<u>1,398,042</u>
<b>Total Assets</b>	<u>\$ 1,739,208</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$ 16,062
Accrued Salaries	8,332
Other Accrued Liabilities	1,704
Accrued Compensated Absences	5,428
<b>Total Current Liabilities</b>	<u>31,526</u>
<b>NONCURRENT LIABILITIES</b>	
Line Extension Agreements	12,981
Customer Deposits	2,000
<b>Total Noncurrent Liabilities</b>	<u>14,981</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,385,061
Unrestricted	307,640
	<u>1,692,701</u>
	<u>\$ 1,739,208</u>

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Year Ended June 30, 2006

	<b>2006</b>
<b>OPERATING REVENUES</b>	
Water Services and Fees	\$ 330,288
Trash Collection	18,593
Recreational Fees	18,590
Refunds and Reimbursements	5,527
Rents and Royalties	2,887
Other Operating Revenue	<u>6,411</u>
<b>Total Operating Revenue</b>	<b>382,296</b>
<b>OPERATING EXPENSES</b>	
Administration	182,554
General Maintenance	83,310
Parks and Recreation	67,016
Road Maintenance	26,173
Water Utilities	282,251
Cemetery	1,477
Golf Course	85,305
Depreciation	<u>104,973</u>
<b>Total Operating Expenses</b>	<b><u>833,059</u></b>
<b>Operating Loss</b>	<b>(450,763)</b>
<b>NON-OPERATING REVENUES</b>	
Property Taxes, Net of County Administrative Fees	300,750
Non Capital Grants	6,630
Interest Revenue	<u>7,157</u>
	<u>314,537</u>
<b>Decrease in Net Assets</b>	<b>(136,226)</b>
<b>Net Assets at Beginning of Year</b>	1,832,322
<b>Prior Period Adjustments</b>	<u>(3,395)</u>
<b>Net Assets at Beginning of Year - As Adjusted</b>	<u>1,828,927</u>
<b>Net Assets at End of Year</b>	<b><u><u>\$ 1,692,701</u></u></b>

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2006

	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts From and On Behalf of Customers	\$ 430,599
Payments to Suppliers and Contractors	(376,717)
Payments to and Benefits Provided for Employees	(333,302)
Other Receipts and Payments, Net	711
<b>Net Cash Used By Operating Activities</b>	<u>(278,709)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Receipts from Grantors	6,630
Net Property Taxes Received	300,750
<b>Net Cash Provided By Non-Capital Financing Activities</b>	<u>307,380</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Proceeds From Issuance of Line Extension Agreements	6,106
Payments on Line Extension Agreements	(6,143)
<b>Net Cash Used By Capital Financing Activities</b>	<u>(37)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	7,157
<b>Net Cash Provided By Investing Activities</b>	<u>7,157</u>
<b>Net Increase in Cash and Cash Equivalents</b>	35,791
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>272,809</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 308,600</u>

<b>Reconciliation of Operating Loss to Net Cash Used by</b>	
<b>Operating Activities</b>	
Operating Loss	\$ (450,763)
<b>Adjustments to Reconcile Operating Loss to Net Cash</b>	
<b>Used by Operating Activities</b>	
Depreciation	104,973
<b>Changes in</b>	
Accounts Receivable	52,414
Inventory	6,317
Accounts Payable	10,725
Accrued Salaries Payable	(2,740)
Other Accrued Liabilities	574
Compensated Absences	(209)
<b>Net Cash Used By Operating Activities</b>	<u>\$ (278,709)</u>

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - Timberon Water and Sanitation District (District) is a political sub-division of the State of New Mexico which was authorized by the New Mexico District Court system and was formed and incorporated in 1990 pursuant to NMSA 73-21 1978 when members of the District voted to create a special water district. The purpose of the District is to provide the Timberon region with a viable water supply and sanitation facilities and to provide operation and maintenance of the water system.

The District acquired the water system from its predecessor, The Timberon Protective Association in August, 1993. The District also acquired the assets of the Timberon Property Association when that organization disbanded, providing the District's residents and visitors access to fishing lakes, a golf course, swimming pool and the lodge complex. The acquisition also included an unpaved airstrip, which the District deeded to Otero County in 2004.

The Board of Directors consists of five members elected by the resident landowners. The Board shall appoint qualified personnel to guide and direct the operations of the District, and to approve all major contracts, capital outlay, etc involving the District.

**Financial Reporting Entity** - The accompanying financial statements present the Timberon Water and Sanitation District. The District has no component unit entities as defined by applying the criteria set forth in GASB No. 14, nor is it a component unit of a primary government using the same criteria.

**Basis of Accounting and Financial Statement Presentation** - The District's basic financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as set forth or adopted by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), and their predecessors, the National Council on Governmental Accounting ("NCGA") and the Accounting Principles Board ("APB"), respectively. Generally accepted accounting principles for local governments include those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*.

All activities of the District are accounted for within a proprietary (enterprise) fund. Proprietary funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District is classified as a special purpose government and is required to meet the requirements for being reported under criteria prescribed by GASB 34. This is the first year reporting under this special purpose government model.

GASB Statement Number 20 requires that governments' proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The District's funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred. All assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted; and unrestricted components.



TIMBERON WATER AND SANITATION DISTRICT  
 STATE OF NEW MEXICO  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 Year Ended June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Deposits and Investments** - The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, direct obligations of the U.S. Government, and the New Mexico State Treasurer's Investment Pool. Cash and temporary investments for the District are reported at fair value. All funds invested by the District properly follow State deposit and investment requirements as of June 30, 2006.

**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, which include property, equipment, information technology and proprietary purchased operations software and are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The District did not incur any interest expense for the year ended June 30, 2006.

Leasehold improvements and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Leasehold improvements	40
Office equipment	5 – 10
Maintenance equipment	5 – 10

**Net Assets** - Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets: debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories

**Deficit Fund Net Assets** – For the year ended June 30, 2006, the District's operating fund reported positive fund net assets.

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

**Advertising** - Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2006 was \$449.

TIMBERON WATER AND SANITATION DISTRICT  
 STATE OF NEW MEXICO  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 Year Ended June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Property Taxes** - Property taxes are levied by the County on the District’s behalf and are intended to finance the District’s activities of the upcoming fiscal year. Taxes are recognized at the time the taxes are levied and are reported net of any administrative fees withheld by the County. Amounts levied are based on assessed property values as of the preceding year. The property tax calendar includes these dates:

<u>Property Tax Calendar</u>	<u>Effective Date(s)</u>
Levy date	January 1
Lien date	January 1
Tax bill mailed	October 31
First installment payment due	November 10
First installment delinquent date	December 10
Second installment payment due	April 10
Second installment delinquent date	May 10

In a ruling by the 3<sup>rd</sup> Judicial District Court in March, 2006, the District’s ability to assess property tax was capped at \$10 per \$1,000 assessed valuation as per Section 4-54-4, NMSA 1978, which the District is appealing. This tax levy can only be used to pay indebtedness within the limits of the section. Prior to the ruling, the District was assessing \$26.116 per \$1,000 for properties within the District’s jurisdiction. This ruling is effective for fiscal years starting on and after July 1, 2006.

**Grants and Contributions** - The District receives grants as well as contributions in the course of operations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Accounting Pronouncements** - Effective July 1, 2003, the District adopted three accounting statements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34, *Basis Financial Statements and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34);
- Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; and
- Statement No. 38, *Certain Financial Statement Disclosures*. Statement No. 34, as amended by Statement No. 37, has no monetary impact on the financial statements but does require changes in the financial reporting model used by the District. These changes are the presentation of a statement of cash flows prepared using the direct method of cash flow reporting, the classification of the District’s net assets, and additional footnote disclosures. Statement No. 34 also requires as supplementary information Management’s Discussion and Analysis, which includes an analytical overview of the District’s financial activities. Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement does not affect amounts reported in the financial statements of the District, certain note disclosures have been added and/or amended.

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
Year Ended June 30, 2006

**NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** – The annual budget for the fiscal year beginning July 1 is prepared by management and is approved by the Board of Directors. The District then must obtain approval of the budget from the New Mexico Department of Finance and Administration (DFA).

Budgetary revisions made by the Board of Directors through resolutions which alter total expenditures are required to be sent to the DFA for approval. Transfers between line items only require Board approval. The District's bylaws require that spending does not exceed the budgeted amounts at the department level. The budgets are prepared on a regulatory basis which is comparable to the GAAP financial presentation included in this report. Therefore, budgetary data for the District is included as supplementary information.

For the year ended June 30, 2006, the District's operating fund did not exceed budgetary authority in total, but several line item expenditures exceeded the budgeted amounts for the 2006 fiscal year.

**NOTE C – NET ASSET RECONCILIATION**

The District has implemented reporting changes necessitated by FASB 34 and the new reporting model, as noted in Note A. As a result, the District has converted the method of reporting from a general government type of financial statements to a special-purpose enterprise fund. Previously, the District reported a General Fund and Proprietary Fund. In converting to an enterprise fund method of financial statement reporting, the net assets of the Governmental and Business-type Activities are combined as follows:

<u>Fund Description</u>	<u>Amount</u>
Governmental Activities Net Assets	\$ 988,528
Business-Type Activities Net Assets	<u>843,793</u>
Combined Net Assets at June 30, 2005	<u>\$ 1,832,322</u>

FASB 34 implementation necessitated adjustments to net assets during the current year as well as corrections from prior years' audited financial statements. The prior period adjustments and the cumulative effect on net assets are detailed below.

<u>Prior Period Adjustment:</u>	<u>Amount</u>
Combined Net Assets at June 30, 2005	\$1,832,322
Prior Year Allowance of Uncollectible Property Taxes Receivable Not Recorded in Prior Year	(13,843)
Water Services Accounts Receivable Conversion to Accrual Method and Remove Cash-basis Allowance Accounts	39,190
Reclass Deposits Recorded in Net Assets in the Prior Year	(2,000)
Record Loss on Airstrip Deeded to Otero County in 2004 and Remove from Asset Schedule	<u>(26,742)</u>
Total Prior Period Adjustments	<u>(3,395)</u>
Adjusted Net Assets at June 30, 2005	<u>\$1,828,927</u>

TIMBERON WATER AND SANITATION DISTRICT  
 STATE OF NEW MEXICO  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 Year Ended June 30, 2006

**NOTE D – CASH AND CASH EQUIVALENTS**

The District invests its funds in accordance with State statutes as described in Note A. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more financial institutions. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk other than following the state statutes as put forth in the Public Money Act (Sec. 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2006, the carrying values of the District's deposits were \$308,600. The total cash balance in financial institutions of \$44,852 consists of non-interest bearing demand deposits.

In accordance with FDIC, public unit deposits are funds owned by the District. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution. Of the District's funds on deposit, \$44,852 was covered by federal depository insurance. As of June 30, 2006, no bank deposits were subject to custodial credit risk. The District also maintains \$554 in petty cash.

Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution. The types of collateral an institution is permitted to use as pledged securities are limited to direct obligations of the United States Government and all bonds issued by any agency or political subdivision of the State of New Mexico. The institution maintains securities with a market value of \$72,600 as of June 30, 2006 pledged in the District's name as a reserve in the event the District's cash exceeds the FDIC limitation during the year.

	<b>Western Bank</b>
Total Deposits at Institution	\$ 44,852
Less FDIC Coverage	(44,852)
Less Collateral Pledged in District's Name	<u>(72,600)</u>
Total Over-Collateralized	<u>\$ (72,600)</u>

The District also maintains an account with the New Mexico State Treasurer Local Government Investment Pool (LGIP). The LGIP is not SEC registered. Section 6-10-10.1, 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 by the United States government or by its departments or agencies and are either backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The LGIP investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. Participation in the LGIP is voluntary and can be liquidated by the District at the Board's discretion. The District's balance in the LGIP account as of June 30, 2006 is \$265,000.

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
Year Ended June 30, 2006

**NOTE E – RECEIVABLES**

A prior period adjustment to accounts receivable was made to properly report the receivables on the accrual basis of accounting, converting from another accounting method. This adjustment also adjusted the allowance accounts to more accurately reflect the amounts deemed uncollectible by management under the accrual method. Accounts receivables reported by the District at June 30, 2006 consist of the following amounts:

	2006
Water Utilities Accounts Receivable	\$ 8,936
Allowance for Uncollectible Accounts	(454)
Standby Fees Accounts Receivable	237,443
Allowance for Uncollectible Accounts	<u>(213,359)</u>
Total Accounts Receivable	<u>\$ 32,566</u>

The District has an outstanding property tax receivable of \$44,446 as of June 30, 2006, which has been fully reserved as uncollectible. A prior period adjustment was made to fully reserve prior year's tax receivable.

**NOTE F – CAPITAL ASSETS**

Leasehold improvements and equipment capital asset activity consists of the following at June 30, 2006:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2006</u>
Land	\$ 159,706	\$ -	\$ (12,200)	\$ 147,506
Buildings and Improvements	637,697	-	-	637,697
Furniture and Equipment	<u>1,735,880</u>	<u>-</u>	<u>(79,694)</u>	<u>1,656,186</u>
Totals at Historical Cost	2,533,283	-	(91,894)	2,441,389
Accumulated Depreciation				
Buildings and Improvements	(224,902)	(16,797)	-	(241,699)
Furniture and Equipment	<u>(778,623)</u>	<u>(88,176)</u>	<u>65,151</u>	<u>(801,648)</u>
Total Accumulated Depreciation	<u>(1,003,525)</u>	<u>(104,973)</u>	<u>65,151</u>	<u>(1,043,347)</u>
Capital Assets, Net	<u>\$ 1,529,758</u>	<u>\$ (104,973)</u>	<u>\$ (26,743)</u>	<u>\$ 1,398,042</u>

Depreciation was \$104,973 for the year ended June 30, 2006. A prior period adjustment was made to remove the District's airstrip from the asset schedule. The airstrip was deeded to Otero County in 2004 but remained on the schedule.

TIMBERON WATER AND SANITATION DISTRICT  
 STATE OF NEW MEXICO  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 Year Ended June 30, 2006

**NOTE G – LINE EXTENSION AGREEMENTS**

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 property owner's lot. The District agrees to repay the owner by funding the repayment from the collection of standby water fees from the owners who stand to benefit from the line extension, but have not connected to the new extension and will not have to incur additional extension costs when the decision is made to connect to the water line. Each year the District accumulates the standby water fees from those benefiting owners and used those funds to repay the property owner who initially agreed to extend the line. The repayment has no stated schedule or interest rate and is dependent on the repayment of standby fees from the other property owners along the extension. The following is a summary of the activity for the year ended June 30, 2006.

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2006</u>
Line Extension Agreements	\$ <u>13,018</u>	\$ <u>6,106</u>	\$ <u>(6,143)</u>	\$ <u>12,981</u>

**NOTE H – 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 upon an employee's termination. 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. The accrued value of the vacation leave due to employees as of June 30, 2006 is \$5,428.

**NOTE I – PERA PENSION PLAN**

**Plan Description** – All employees of the District who do not meet the criteria for exclusion participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employee 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, New Mexico 87504-2123.

**Funding Policy** – Members are required to contribute 7.00% of their gross salary. The District is required to contribute 7.00% for all plan members. The contribution requirements of plan members and the District 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, 2006 was \$14,484, equal to the amount of required contributions for the year.

The District does not provide any other type of deferred compensation or retirement benefits, nor does it participate in the Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978).

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
Year Ended June 30, 2006

**NOTE J – RISK MANAGEMENT**

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any preceding years.

**NOTE K – COMMITMENTS AND CONTINGENCIES**

The District filed a proposed water rate restructure change with the New Mexico Public Regulation Commission (PRC) on September 25, 2006. This proposal will eliminate the 3,000 gallon allowance per month included in the base rate of \$17.40. Instead, each customer will be billed \$2.69 per one thousand gallon usage beginning with the first gallon used. The new rate will apply to residential and commercial service with ¾" and 1" meters. The proposed changes will be effective November 15, 2006 unless protests or the PRC cause a delay in implementation.

The District entered into several reimbursement grant agreements with the New Mexico Environmental Department (NMED) totaling \$200,000 for well rehabilitation and additional wells to supplement the water supply for the District in May 2004. An agreement between NMED and the District allows NMED to direct pay third party vendors for work done under the grant umbrella. In August 2006, the NMED issued a payment to a drilling contractor for \$177,575 for additional wells drilled for the District. The District has approximately \$16,923 remaining in the grants, which is to be expended by end of fiscal year 2009.

The District entered into reimbursement grant agreements with NMED for water system improvements in September 2004. As of June 30, 2006, the District has expended approximately \$11,643 of the grants. The remaining \$188,357 must be expended by the end of fiscal year 2009.

After the fiscal year end, The District entered into reimbursement grant agreements with NMED for water reservoir construction and water line rehabilitation in the amount of \$200,000, part of which the District will apply to the water system improvement project.

**SUPPLEMENTARY INFORMATION**



TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
Year Ended June 30, 2006

	Original Budget	Budget Changes	Final Budget	Actual	Variance Favorable Unfavorable
<b>OPERATING REVENUES</b>					
Water Services and Fees	\$ 326,800	\$ -	\$ 326,800	\$ 330,288	\$ 3,488
Trash Collection	18,000	-	18,000	18,593	593
Recreational Fees	22,825	-	22,825	18,590	(4,235)
Refunds and Reimbursements	9,250	-	9,250	5,527	(3,723)
Rents and Royalties	4,235	-	4,235	2,887	(1,348)
Other Operating Revenue	3,175	-	3,175	6,411	3,236
<b>Total Operating Revenue</b>	<b>384,285</b>	<b>-</b>	<b>384,285</b>	<b>382,296</b>	<b>(1,989)</b>
<b>OPERATING EXPENSES</b>					
Administration	106,897	75,588	182,485	182,554	(69)
General Maintenance	109,897	(6,500)	103,397	83,310	20,087
Parks and Recreation	75,806	-	75,806	67,016	8,790
Road Maintenance	50,544	-	50,544	26,173	24,371
Water Utilities	269,538	900	270,438	282,251	(11,813)
Cemetery	1,665	-	1,665	1,477	188
Golf Course	94,146	4,100	98,246	85,305	12,941
Capital Outlay	490,000	(35,900)	454,100	-	454,100
	<u>1,198,493</u>	<u>38,188</u>	<u>1,236,681</u>	<u>728,086</u>	<u>508,595</u>
<b>Operating Loss</b>	<b>(814,208)</b>	<b>(38,188)</b>	<b>(852,396)</b>	<b>(345,790)</b>	<b>506,606</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Ad Valorem Taxes	359,924	-	359,924	300,750	(59,174)
Interest Income	5,000	-	5,000	7,157	2,157
Capital and Non-Capital Grants	379,750	-	379,750	6,630	(373,120)
	<u>744,674</u>	<u>-</u>	<u>744,674</u>	<u>314,537</u>	<u>(430,137)</u>
<b>Increase (Decrease) in Net Assets</b>	<b>(69,534)</b>	<b>(38,188)</b>	<b>(107,722)</b>	<b>(31,253)</b>	<b>76,469</b>
<b>Net Assets at Beginning of Year</b>	<b>1,832,322</b>		<b>1,832,322</b>	<b>1,832,322</b>	<b>-</b>
<b>Net Prior Period Adjustments</b>	<b>-</b>		<b>-</b>	<b>(3,395)</b>	<b>(3,395)</b>
<b>Net Assets at Beginning of Year - As Adjusted</b>	<b>1,832,322</b>		<b>1,832,322</b>	<b>1,828,927</b>	<b>(3,395)</b>
<b>Net Assets at End of Year</b>	<b>\$ 1,762,788</b>		<b>\$ 1,724,600</b>	<b>\$ 1,797,674</b>	<b>\$ 73,074</b>
<b>Reconciliation of Budgetary Basis Net Assets to GAAP Basis Net Assets</b>					
Net Assets - Budgetary Basis				\$ 1,797,674	
Depreciation is an estimation of capital asset usage during the year and is not a budgetary item				(104,973)	
<b>Net Assets at End of Year</b>				<b>\$ 1,692,701</b>	

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
SCHEDULE OF DEPOSITS AND TEMPORARY INVESTMENTS  
BY DEPOSITORY FOR PUBLIC FUNDS  
Year Ending June 30, 2006

Name of Depository	Account Type	Bank Balance	Net Reconciling Items	Reconciled Balance
Western Bank - Alamogordo	Checking	\$ 19,322	\$ (1,806)	\$ 17,516
Western Bank - Alamogordo	Checking	24,364	1,000	25,364
Western Bank - Alamogordo	Savings	166	-	166
		<u>43,852</u>	<u>(806)</u>	43,046
New Mexico State Treasurer				<u>265,000</u>
				308,046
	Petty Cash			<u>554</u>
	Total Cash			<u>\$ 308,600</u>

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY  
FOR PUBLIC FUNDS  
Year Ending June 30, 2006

Name of Depository	Pledged Collateral	Name and Location of Custodian	Fair Market Value June 30, 2006
Western Bank - Alamogordo	FHLMC ARM #788825 Matures 11/01/2031	Federal Home Loan Bank Dallas, TX	\$ 45,308
Western Bank - Alamogordo	GMNA II #80044 Matures 2/20/2027	Federal Home Loan Bank Dallas, TX	<u>27,292</u>
			<u>\$ 72,600</u>



**SUPPORTING SCHEDULES**

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
SCHEDULE OF DEPARTMENTAL EXPENSES  
Year Ending June 30, 2006

	<u>Administration</u>	<u>General Maintenance</u>	<u>Parks &amp; Recreation</u>
Salaries	\$ 61,211	\$ 20,951	\$ 20,921
Employee Benefits	17,439	5,847	3,808
<b>Total Salaries and Related Expenses</b>	<b>78,650</b>	<b>26,798</b>	<b>24,729</b>
Legal and Professional	73,834	-	208
Trash Disposal	-	25,293	-
Accounting and Audit	12,838	-	-
Other Contractual Services	-	-	-
Insurance	3,924	5,959	6,409
Utilities	3,217	7,646	19,946
Telephone	2,697	662	707
Office, Supplies and Postage	1,620	1,446	1,052
Travel and Training	1,496	-	76
Repairs and Maintenance	866	7,054	12,880
Fuel and Oil	-	7,475	600
Election Expense	772	-	-
Printing	711	-	3
Equipment Rental	566	204	-
Subscriptions, Dues and Fees	523	-	277
Advertising	88	-	49
Other	752	773	80
<b>Totals</b>	<b>\$ 182,554</b>	<b>\$ 83,310</b>	<b>\$ 67,016</b>

<u>Road</u>					
<u>Maintenance</u>	<u>Water Utilities</u>	<u>Cemetery</u>	<u>Golf Course</u>	<u>Total</u>	
\$ 11,087	\$ 108,559	\$ 393	\$ 34,693	\$ 257,815	
2,981	26,564	92	6,698	63,429	
14,068	135,123	485	41,391	321,244	
-	13,901	-	484	88,427	
-	-	-	-	25,293	
-	-	-	-	12,838	
-	4,777	-	-	4,777	
3,196	6,618	447	3,699	30,252	
-	30,310	233	18,593	79,945	
-	1,756	-	303	6,125	
35	8,151	-	7,156	19,460	
-	1,062	-	-	2,634	
2,874	70,849	312	10,637	105,472	
6,000	4,701	-	1,759	20,535	
-	-	-	-	772	
-	692	-	-	1,406	
-	816	-	-	1,586	
-	3,233	-	-	4,033	
-	65	-	247	449	
-	197	-	1,036	2,838	
<u>\$ 26,173</u>	<u>\$ 282,251</u>	<u>\$ 1,477</u>	<u>\$ 85,305</u>	<u>\$ 728,086</u>	

**COMPLIANCE**



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

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

We have audited the financial statements of the business-type activities Timberon Water and Sanitation District as of and for the year ended June 30, 2006 and have issued our report thereon dated October 27, 2006. We have also audited the budgetary comparison schedule presented as supplemental information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Timberon Water and Sanitation District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 material weaknesses.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978 which is described in the accompanying Schedule of Audit Findings as 2006-1.

Board of Directors  
Timberon Water and Sanitation District

This report is intended solely for the information and use of Board of Directors, management and the State of New Mexico Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*J W Anderson & Associates, PC*

JW Anderson & Associates, PC  
Certified Public Accountants  
Lubbock, Texas  
October 27, 2006

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
SCHEDULE OF AUDIT FINDINGS  
For the Year Ended June 30, 2006

Prior Year -

<u>Finding</u>	<u>Description</u>	<u>Status</u>
NONE		

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
SCHEDULE OF AUDIT FINDINGS  
For the Year Ended June 30, 2006

**Current Year -**

**2006-1 Budget Variances**

**CONDITION** - The District exceeded budgetary authority at the department level by exceeding the final budget amounts for the Administration department by \$69 and for the Water Utilities department by \$11,813, respectively.

**CRITERIA** - Periodic review of budgeted to actual expenditures is needed to ensure that accounting and fiscal policies and limitations are met.

**CAUSE** - Legal invoices received after the final budget review at the end of the fiscal year increased the amount of administrative expenses incurred for the fiscal year. The change in capitalization threshold for capital outlay items reclassified some expenses which caused the water utilities department to exceed budgeted expenditures.

**EFFECT** - The additional expenses and reclassifications caused the budget to be exceeded at the department level.

**RECOMMENDATION** - We recommend the budget be prepared in such a way that it can reasonably accommodate additional expenditures which might be received and recorded after the final budget review to ensure fiscal and grant compliance.

**MANAGEMENT'S RESPONSE** - The budget committee consists of the treasurer of the Board of Directors, administrative secretary, and at least three members of the Timberon community. The committee reviews the budget on a quarterly basis.

TWSD was not able to get a hold on legal costs at the end of the fiscal year to adequately adjust the budget so the administration department would not exceed its budget. The Board of Directors has discussed ways to curb legal costs in the last three regular meetings and will watch the 2006/2007 budgets more closely.

The water utility was over budget because there was confusion about the definition of capital outlay. Some items were budgeted as capital outlay but did not meet the new definition set by the legislature and were therefore expensed under operations. The budget should have been adjusted to correct this problem, but it was not recognized in time. TWSD will be sure to use the new capital outlay definition when preparing budgets and expensing items in the future.

TIMBERON WATER AND SANITATION DISTRICT  
STATE OF NEW MEXICO  
EXIT CONFERENCE  
For the Year Ended June 30, 2006

The contents of this report were discussed with the Timberon Water and Sanitation District on September 28, 2006.  
The following individuals were available for the conference:

Timberon Water & Sanitation District

Ron Wyatt, General Manager  
Debbie Goss, Administrative Secretary  
Scott Millar, Board Member

J.W. Anderson & Associates, PC

Larry Anderson, President  
Scott Northam, Audit Manager  
Jerry Hill, Audit Manager

The financial statements of Timberon Water and Sanitation District were prepared by J.W. Anderson & Associates, PC from original books and records provided by and with assistance from the management of the District. Accordingly, management is responsible for ensuring the books and records adequately support the preparation of the financial statements in accordance with generally accepted accounting principles and that the records are current and in balance.

