

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION
WITH ACCOMPANYING AUDITORS' REPORTS
YEAR ENDED JUNE 30, 2008**

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 Timberon Water & Sanitation District
 Table of Contents
 June 30, 2008

	Exhibit / Schedule	Page
INTRODCUTORY SECTION:		
Table of Contents		3
Directory of Officials		4
FINANCIAL SECTION:		
Independent Auditors' Report		6-7
Management's Discussion and Analysis		8-11
BASIC FINANCIAL STATEMENTS:		
Statement of Net Assets	A	13
Statement of Revenues, Expenses and Changes in Net Assets	B	14
Statement of Cash Flows	C	15-16
NOTES TO THE FINANCIAL STATEMENTS		18-26
SUPPLEMENTARY INFORMATION:		
Statement of Reveues, Expenses, and Changes in Net Assets, Budget (GAAP Basis) and Actual	A-1	28
SUPPORTING SCHEDULES		
Schedule of Collateral Pledged by Depository for Public Funds	I	30
Schedule of Deposits and Investments Accounts	II	31
COMPLIANCE SECTION:		
Report on Internal Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		32-33
Schedule of Findings and Responses	III	34-41
OTHER DISCLOSURES:		42

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Official Roster
June 30, 2008

<u>Name</u>	<u>Board</u>	<u>Title</u>
Arden Schug		Chairman
Burt Rubinowitz		Vice Chairman
Pete Bowidowicz		Member
Virgil Beagles		Member
Joe Mainello		Treasurer
	<u>Officials</u>	
Martin Moore		General Manager

FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector Balderas
New Mexico State Auditor
The Office of Management and Budget
and
Arden Schug, Chairman
Members of the Board of Directors
Timberon Water & Sanitation District
Timberon, New Mexico

We were engaged to audit the accompanying basic financial statements of the business-type activities of Timberon Water and Sanitation District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. We were also engaged to audit the budgetary comparison presented as supplementary information for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management..

The District has not maintained adequate and timely accounting records as subsequently described.

The District does not have a financial program that can produce the information necessary to determine a reasonable balance for revenue and accounts receivable for standby fees, trash fees and metered water fees and, accordingly, the balances of these accounts cannot be reasonably calculated and the District's records do not permit the application of other auditing procedures to accounts receivable and revenue. The District has not adopted a methodology for reviewing the collectability of accounts receivable for standby fees, trash fees and metered water fees and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. The amount that should be recorded as an allowance for uncollectible receivables is not reasonably determinable and the District's records do not permit the application of other auditing procedures to the allowance for uncollectible receivables. The District has not adopted a methodology for reviewing the capital asset inventory and, accordingly, has not recorded or tracked additions and deletions to the capital asset inventory list. The amounts that should be recorded as cost of capital assets, accumulated depreciation, and depreciation expense is not reasonably determinable and the District's records do not permit the application of other auditing procedures to capital assets. The District has not adopted a methodology for reviewing and tracking payments that should be made to customers for the line extension payable and accordingly, has not been able to determine the correct balance for these accounts and the District's records do not permit the application of other auditing procedures to the line extension payable. As explained in Finding FS 2007-08, the District failed to locate supporting documentation for certain disbursements. The District's records do not permit the application of other auditing procedures to determine the appropriateness of the account classification, vendor, and amount. As discussed in Note 12 to the financial statements the District is subject to numerous lawsuits filed subsequent to June 30, 2008. We did not receive responses to our legal letters sent to certain attorneys that represented the District during the year ended June 30, 2008. Because we did not receive responses from certain attorney's, contingent liabilities that are material to the financial position and the changes in financial position of the District may exist as of June 30, 2008 and not be properly recorded or disclosed. The District's records do not permit the application of other auditing procedures to the determine the amount of contingent liabilities that may be required by generally accepted accounting principles to be recorded or disclosed. We were unable to obtain written representations from management of the District as required by generally accepted auditing standards. By court order the District was placed in receivership citing the District's possible inability to pay its bills and also citing the fact that the District's records are in such disarray that the auditor's could not audit the District's records in a manner required by law (see note 11).

Since we were unable to obtain sufficient competent evidential matter to support the Districts receivables, allowance for uncollectible receivables, capital assets, accumulated depreciation, depreciation expense, revenues, expenses, and management did not provide us with written representations, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the basic financial statements and the budgetary comparison as of and for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 8 through 11 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 required supplementary information. However, we did not audit the information and express no opinion on it.

We were engaged to conduct an audit for the purpose of forming opinions on the District's basic financial statements and budgetary comparison. The accompanying information listed as Schedules A-1, I and II in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matters discussed in the above paragraph, the scope of our work was not sufficient for us to express, and we do not express an opinion regarding whether Schedules A-1, I and II are fairly stated, in all material respects, in relation to the basic financial statements taken as whole. The introduction section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
June 23, 2010

Introduction

As management of the Timberon Water & Sanitation District (the "District"), the Board of Directors offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the Fiscal Year ended June 30, 2008.

Financial Highlights

Key events for the Fiscal Year 2008 are:

- The assets of the District exceeded liabilities at the close of the most recent Fiscal Year by \$2,413,772 (*total net assets*). The components of net assets include invested in capital assets, net of related debt (\$1,833,302), and unrestricted net assets, (\$580,470).
- The District's total net assets increased by \$572,529 compared to the prior year. This increase results primarily from increased grants and prior period adjustment.
- As of June 30, 2008, the District had current and noncurrent assets totaling \$794,514 and \$1,840,824, respectively. Capital assets, net of accumulated depreciation totaled \$1,840,824. Current liabilities include \$212,456 in accounts payable, and \$1,588 in accrued liabilities. Noncurrent liabilities (line extension agreements) totaled \$7,522.

Overview of the Financial Statements

The District is a special purpose government agency engaged only in business-type activities. Therefore, in accordance with GASB Statement No. 34, the District's financial statements are comprised of two components:

1. Government-wide enterprise fund financial statements consisting of:
 - a. Statement of net assets;
 - b. Statement of revenues, expenses and changes in fund net assets;
 - c. Statement of cash flows; and,
 - d. Notes to the financial statements
2. Budgetary comparison statement is presented as supplementary information

These financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The enterprise fund financial statements can be found on pages 13-16 of this report.

The Statement of Net Assets 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.

The Statement of Revenues, Expenses and Changes in Fund Net Assets presents information showing how the District's net assets changed during the most recent Fiscal Year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., uncollected taxes and accounts payable).

The Statement of Cash Flows presents information on how the District's cash was used. It shows net cash used by or provided by operating activities, capital financing activities, noncapital financing activities and investing activities. It also reconciles beginning cash balances to ending cash balances.

The Notes to the Financial Statements provide additional information that is essential to full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 18-26 of this report.

STATE OF NEW MEXICO
 Timberon Water & Sanitation District
 Management's Discussion and Analysis
 June 30, 2008

Overview of the Financial Statements (continued)

The Budgetary Comparison Statement compares current period activity on a budgetary basis of accounting to the legally adopted budget. The amounts presented in the budgetary comparison statement may differ from amounts presented in the statement of revenues, expenses and changes in fund net assets. The budgetary comparison statement has been presented as supplementary information to demonstrate compliance with NMAC 2.2.2.10 O (3).

Government-Wide Financial Analysis (Broad Overview of Finance)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, a positive net asset balance (assets exceeding liabilities) of \$2,413,772 is reported at the close of the most recent Fiscal Year.

For the years ended June 30, 2008 and 2007 the District reported \$580,470 and \$322,435 of net assets as unrestricted, respectively.

Overview of the Statement of Net Assets

	2008	2007 As restated	Variance
	<u> </u>	<u> </u>	<u> </u>
<i>Assets:</i>			
Current assets	\$ 794,514	\$ 253,651	\$ 540,863
Capital assets, net	<u>1,840,824</u>	<u>1,613,478</u>	<u>227,346</u>
Total Assets	<u>\$ 2,635,338</u>	<u>\$ 1,867,129</u>	<u>\$ 768,209</u>
<i>Liabilities:</i>			
Current liabilities	214,044	18,364	195,680
Noncurrent liabilities	<u>7,522</u>	<u>7,522</u>	<u>-</u>
Total Liabilities	<u>221,566</u>	<u>25,886</u>	<u>195,680</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	1,833,302	1,605,956	227,346
Unrestricted	<u>580,470</u>	<u>322,435</u>	<u>258,035</u>
Total Net Assets	<u>\$ 2,413,772</u>	<u>\$ 1,928,391</u>	<u>\$ 485,381</u>

Government-Wide Financial Analysis (Broad Overview of Finance) (continued)

Overview of the Statement of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007 As restated</u>	<u>Variance</u>
Revenues:			
Water services and fees	\$ 195,247	\$ 283,689	\$ (88,442)
Trash collection	40,738	36,068	4,670
Recreational fees	3,253	3,877	(624)
Other operating revenue	17,038	13,677	3,361
Total Revenues	256,276	337,311	(81,035)
Expenses:			
Administration	73,168	88,461	(15,293)
General Maintenance	35,581	87,142	(51,561)
Parks and Recreation	5,206	26,637	(21,431)
Road Maintenance	5,361	51,257	(45,896)
Water Utilities	205,047	266,385	(61,338)
Cemetery	45	741	(696)
Golf Course	13,429	12,924	505
Depreciation	105,418	99,777	5,641
Total Expenses	443,255	633,324	(190,069)
Non-operating Revenue	672,360	416,172	256,188
Increase (Decrease) in Net Assets	485,381	120,159	365,222
Net Assets - Beginning	1,928,391	1,808,232	120,159
Net Assets - Ending	\$ 2,413,772	\$ 1,928,391	\$ 485,381

Financial Analysis of the District's Funds and Fiscal Year 2008 Budgetary Highlights

As noted above, net assets increased by \$485,381 from Fiscal Year 2007 to Fiscal Year 2008. Net increase is shown after adjustment for the restatement. Total revenues increased by \$262,301, mainly due to an increase in capital grants of \$74,339. However, total expenses decreased in Fiscal Year 2008 to \$443,255, an decrease of \$190,069 over the Fiscal Year 2007 expenses of \$633,324. The major factor in this decrease in spending was an decrease in operating costs.

There was no difference between the original and final budgets.

A review of budget vs. actual performance shows that the District did not exceed budgeted expenses (\$443,255 spent on the accrual basis of accounting vs. \$1,049,532 budgeted). On the revenue side, property tax revenue was more than budgeted by \$204,140, interest income was more than budgeted by \$9,718, grant income was more than budgeted by \$47,309 and water sales was less than budgeted by \$119,558. A detailed breakout of budget vs. actual revenue and expenses can be found on page 28 of this report.

Government-Wide Financial Analysis (Broad Overview of Finance) (continued)

The board believes that the District is in good financial shape at the close of the Fiscal Year 2008. From July 01, 2007 through June 30, 2008, the District deposits from water and standby sales averaged \$16,270 per month.

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2008 totals \$1,840,824 (net of accumulated depreciation). Major capital events during the Fiscal Year included the following:

- Improvements to the road system at a cost of \$332,764

Additional information on the District's capital assets can be found on pages 21 and 23 of this report.

Financial Outlook for Next Year

On December 15, 2007 the Board passed a resolution to apply for a rate increase from the NM Public Regulation Commission and the request was submitted shortly thereafter. The District also applied to FEMA to reimburse some of the clean up work done on roads before the recovery work was started. In addition, under attorney's advice the District laid off all employees in an effort to save costs.

Requests for Information

This financial report is designed to provide a general overview of the Timberon Water & Sanitation District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Timberon Water & Sanitation District, 1 Bobwhite Circle, Timberon, NM 88350.

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
 Timberon Water and Sanitation District
 Statement of Net Assets
 June 30, 2008

Exhibit A

	<u>Business-type Activities</u>
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents	\$ 263,834
Investments	278,457
Accounts receivable	33,700
Property taxes receivable	218,523
<i>Total current assets</i>	<u>794,514</u>
<i>Capital assets</i>	
Land	514,540
Buildings and improvements	637,697
Furniture, equipment, vehicles, wells and lines	1,924,629
Allowance for depreciation	<u>(1,236,042)</u>
<i>Total noncurrent assets</i>	<u>1,840,824</u>
<i>Total assets</i>	<u><u>\$ 2,635,338</u></u>
<i>Liabilities and net assets</i>	
<i>Current liabilities</i>	
Accounts payable	\$ 212,456
Accrued expenses	1,588
<i>Total current liabilities</i>	<u>214,044</u>
<i>Noncurrent liabilities</i>	
Line extension agreements	<u>7,522</u>
<i>Total noncurrent liabilities</i>	<u>7,522</u>
<i>Total liabilities</i>	<u>221,566</u>
<i>Net assets</i>	
Invested in capital assets, net of related debt	1,833,302
Unrestricted	<u>580,470</u>
<i>Total net assets</i>	<u>2,413,772</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 2,635,338</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Timberon Water and Sanitation District
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended June 30, 2008

Exhibit B

	Business-type Activities
<i>Operating revenues</i>	
Water services and fees	\$ 195,247
Trash collection	40,738
Recreational fees	3,253
Refunds and reimbursements	6,458
Rents and royalties	7,725
Other operating revenues	2,855
<i>Total operating revenues</i>	256,276
<i>Operating Expenses</i>	
Administration	73,168
General maintenance	35,581
Parks and recreation	5,206
Road maintenance	5,361
Water utilities	205,047
Cemetery	45
Golf course	13,429
Depreciation	105,418
<i>Total operating expenses</i>	443,255
<i>Operating income (loss)</i>	(186,979)
<i>Non-operating revenues (expenses)</i>	
Property tax, net of county's administrative fees	332,185
Interest revenue	14,718
<i>Income (loss) before capital grants</i>	346,903
Capital grants	325,457
<i>Change in net assets</i>	485,381
<i>Total net assets, beginning of year</i>	1,841,243
<i>Prior period adjustment, note 10</i>	87,148
<i>Total net asset, beginning of the year, as restated</i>	1,928,391
<i>Total net assets, end of year</i>	\$ 2,413,772

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Timberon Water and Sanitation District
Statement of Cash Flows
For the Year Ending June 30, 2008

	Business-type Activities
<i>Cash flows from operating activities:</i>	
Cash received from customers	\$ 336,086
Payments to suppliers and contractors	(79,245)
Payments to and benefits provided for employees	(54,835)
Other receipts and payments	(8,077)
<i>Net cash provided by operating activities</i>	193,929
 <i>Cash flows from noncapital financing activities</i>	
Net property taxes received	136,165
<i>Net cash provided by noncapital financing activities</i>	136,165
 <i>Cash flows from capital financing activities</i>	
Capital grants	325,457
Purchase of capital assets	(332,764)
<i>Net cash used by capital financing activities</i>	(7,307)
 <i>Cash flows from investing activities</i>	
Interest income	14,718
Purchase of investments	(98,457)
<i>Net cash provided by investing activities</i>	(83,739)
<i>Net increase in cash and cash equivalents</i>	239,048
<i>Cash and cash equivalents - beginning of year</i>	24,786
<i>Cash and cash equivalents - end of year</i>	\$ 263,834

The accompanying notes are an integral part of these financial statements

*Reconciliation of operating loss to net cash (used)
by operating activities:*

Operating loss	\$	(186,979)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense		105,418
Changes in assets and liabilities:		
Increase in accounts receivable		79,810
Increase in accounts payable		202,123
Decrease in accrued liabilities		<u>(6,443)</u>
Net cash provided by operating activities	\$	<u>193,929</u>

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 1. History and Organization

The Timberon Water & Sanitation District (District) was organized pursuant to Sections 73-21-1 through 73-21-55, NMSA, 1978 Comp, and by order of the New Mexico First Judicial District Court in Santa Fe County, New Mexico in 1990. The District is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation. The District was created for the statutory purpose of providing a viable water supply and sanitation facilities and to provide operation and maintenance of the water system in the Timberon region. An elected five-member Board of Directors governs the operations of the District.

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 land owners. The Board shall appoint qualified personnel to guide and direct the District, and to approve all major contracts and capital outlay involving the District.

NOTE 2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted (U.S. GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing U.S. GAAP for state and local government accounting and financial reporting principles.

The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes U.S. GAAP for state and local government units. The more significant of the District's accounting policies are described below. Proprietary activities have applied 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: FASB statements and interpretations, APB opinions, and ARBS of the Committee on Accounting Procedure. The District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis-For State and Local Governments*. This Statement provided for the most significant change in financial reporting in over twenty years and was phased in based on size of government. As required, the District implemented the provisions of GASB No. 34, effective July 1, 2001 and also, as required, implemented GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

GASB Statement No. 37 clarified and modified Statement No. 34, while GASB Statement No. 38 modified, established and rescinded certain financial statement disclosure requirements. As part of these statements, there was a new reporting requirement regarding the District's infrastructure (roads, bridges, etc.). The District does not own any infrastructure and, therefore, was unaffected by this requirement.

A. Financial Reporting Entity

The District is a special-purpose government created pursuant to statute and is comprised of an elected Board of Directors. The officers of the District are elected for four-year terms on the second Tuesday in January of each odd-numbered year at staggered two-year intervals. The District is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation and these financial statements include all funds and activities over which the District officers have oversight responsibility.

The officers of the District have decision-making authority, the power to designate management, the responsibility to significantly-influence operations and primary accountability for fiscal matters. The District is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. There are no component units.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 2. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements - GASB Statement No. 34

The GASB No. 34 reporting model focus is on either the District, as a whole, or major individual funds (within the fund financial statements). The District is a single-program government that engages in only business-type activities and has no component units.

Pursuant to GASB Statement No. 34, governments engaged only in business-type activities present only financial statements for enterprise funds. For these governments, basic financial statements consist of: (a) the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows, and (b) notes to the financial statements. The enterprise fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with its activities are reported. Enterprise fund equity is classified as net assets. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first uses restricted resources and then unrestricted resources.

C. Basis of Presentation - Fund Financial Statements

The accounts of the District are organized on the basis of one fund that is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. Government resources are allocated to and accounted for in the fund based upon the purpose for which spending activities are controlled. In this report, the fund is presented in the financial statements as a proprietary fund.

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in a manner similar to private business enterprise -where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public 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.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The proprietary fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. The revenues are recognized when earned and expenses are recognized when the liability is incurred or the economic asset is used. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

E. Budgets and Budgetary Accounting

Water and Sanitation Districts follow procedures that are promulgated by the Department of Finance and Administration, Local Government Division (DFA-LGD). Those procedures are as follows:

1. Prior to July 15, the Chairman submits to the Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. After the Board approves the proposed budget, it is then submitted to the Local Government Division for review and certification.
3. Upon certification, the budget becomes a legal binding document which does not allow total expenditures in any fund to exceed the amount budgeted. Appropriations lapse at year-end.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 2. Summary of Significant Accounting Policies (continued)

4. The Board is authorized to make budget revisions with the Local Government Division's approval.
5. Formal budgetary integration is employed as a management control device during the year.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. There were no budgetary amendments for the year ended June 30, 2008.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

G. 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 affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the District's financial statements include the allowance for uncollectible accounts and depreciation on capital assets.

H. Assets, Liabilities, Net Assets or Equity, Revenues and Expenses

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, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the District are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Property Taxes: The Board of Directors has the power and authority to levy and collect ad valorem taxes on and against all taxable property within the District. Each year the Board of Directors determine the amount of money necessary to be raised by taxation, taking into consideration other sources of revenue of the District, and submits a budget request to the Department of Finance and Administration, Local Government Division (DFA-LGD) sufficient to meet its operating, debt service, construction and other costs. The DFA-LGD utilizes property valuations obtained from the county assessor's office to set the mil levy. The results are provided to the county treasurer who presents all county-wide mil levies to the Board of County Commissioners for approval by October 1. The Board of County Commissioners levies the tax upon the assessed valuation of all taxable property within the District. Taxes levied are due one-half on November 10 and one-half on April 10. It is the duty of the Board of County Commissioners to levy taxes within the District. The County Treasurer collects the taxes and remits such taxes to the District. All taxes levied, until paid, constitute a perpetual lien on and against the property taxed.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 2. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Net Assets or Equity, Revenues and Expenses (continued)

Capital Assets: Capital assets are tangible assets that have initial useful lives that extend beyond a single reporting period. Capital assets are reported at historical cost or estimated fair value, if donated. Capital assets are depreciated using zero salvage value and the straight-line method over their estimated useful lives. Before the 2005 legislative session, only items costing more than \$1,000 were capitalized.

Effective June 19, 2005, House Bill 1074 amended Section 12-6-10, NMSA 1978, to increase the capitalization threshold to items costing more than \$5,000. The major classifications of capital assets and their related depreciable lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-40
Furniture, equipment, vehicles, wells and lines	5-20

The District's water system is depreciated on a provisional basis. A new estimated useful life may be determined when a detailed inventory and evaluation of the District's water system and its components are completed.

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Long-term obligations consist of line extension agreements.

Net Asset Classifications: Invested in capital assets, net of related debt represent the historical cost of assets or fair value on the date of receipt less accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors. Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Operating Revenues and Expenses: Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. Non-operating revenues are all other revenues. For the District, non-operating revenues include ad valorem taxes (property), miscellaneous income and interest income.

NOTE 3. Deposits and Investments

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The District is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2008.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute.

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.

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.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 3. Deposits and Investments (continued)

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state 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.

Custodial Credit Risk – Deposits Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2008, \$97,419 of the District’s deposits of \$263,833 was exposed to custodial credit risk. \$97,419 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the District’s name and \$0 was uninsured and uncollateralized.

Western Bank	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$ 66,415	\$ 197,419	\$ 263,834
Less FDIC coverage	(66,415)	(100,000)	(166,415)
Total uninsured public funds	-	97,419	97,419
Collateralized by securities held by a pledging institutions or by its trust department or agent in other than the Authority's name	-	97,419	97,419
Uninsured and uncollateralized	\$ -	\$ -	\$ -
Collateral requirement (50% of uninsured funds)	\$ -	\$ 48,710	\$ 48,710
Pledged Collateral	-	322,495	322,495
Over (under) collateralized	\$ -	\$ 273,786	\$ 273,786

The collateral pledged is listed on Schedule II in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

Investments

The District invests excess cash in the State Treasurer Local Government Investment Pool. The Pool’s investments are valued at fair value based on quoted market prices as of the valuation date. The New Mexico State Treasurer Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued or backed by the United States Government or by its departments or agencies and are either direct obligations of the United States Government or agencies sponsored by the United States Governments. The Local Government Investment Pool’s investments are monitored by the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per 6-10-10.1 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution 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. See Note 16, Subsequent Events, for additional information concerning the District’s investments in the State Treasurer Local Government Investment Pool.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 3. Deposits and Investments (continued)

The District's investments at June 30, 2008 include the following:

<u>Investments</u>	<u>Rated</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
New Mexico Grow Local Government Investment Pool	AAAm	43	\$ 278,457

NOTE 4. Property Tax Receivable

At June 30, 2008 the receivables represent current and delinquent taxes. The District considers the amount fully collectible and therefore has not estimated the amount of taxes levied that will be uncollectible. Property taxes are as follows:

Property taxes receivable	<u>\$218,523</u>
---------------------------	------------------

NOTE 5. Accounts Receivable

Accounts receivable is water utility revenue billed but uncollected. The District does not consider the balance at June 30, 2008 to be fully collectible, however, the District has not determined the amount that is considered to be uncollectible.

NOTE 6. Capital Assets

A summary of changes in capital assets is as follows:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital assets, not depreciated				
Land	\$ 181,776	\$ 332,764	\$ -	\$ 514,540
Total capital assets, not depreciated	<u>181,776</u>	<u>332,764</u>	<u>-</u>	<u>514,540</u>
Capital Assets, depreciated				
Buildings and improvements	637,697	-	-	637,697
Furniture, equipment, vehicles, wells and lines	1,924,629	-	-	1,924,629
Total capital assets, depreciated	<u>2,562,326</u>	<u>-</u>	<u>-</u>	<u>2,562,326</u>
Accumulated Depreciation:				
Buildings and improvements	(258,247)	(16,190)	-	(274,437)
Furniture, equipment, vehicles, wells and lines	(872,377)	(89,228)	-	(961,605)
Total accumulated depreciation	<u>(1,130,624)</u>	<u>(105,418)</u>	<u>-</u>	<u>(1,236,042)</u>
Net book value	<u>\$ 1,613,478</u>	<u>\$ 227,346</u>	<u>\$ -</u>	<u>\$ 1,840,824</u>

Depreciation expense for the year amounted to \$105,418.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 7. Line Extension Agreements

Line extension agreements 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 uses those funds to repay the property owner who initially agreed to extend the line. The agreement has no stated repayment schedule or interest rate and is dependent on the collection 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, 2008.

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2008</u>
Line extension agreements	<u>\$7,522</u>	<u>-</u>	<u>-</u>	<u>\$7,522</u>

The District does not consider the entire balance at June 30, 2008 to be long term, however, the District has not determined the amount that is considered to be short term.

NOTE 8. 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 the plan members and 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 years ended June 30, 2008, 2007 and 2006 were \$478, \$901, and \$14,484, respectively.

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).

NOTE 9. Risk Management

The District covers its insurance needs through various insurance policies. The coverage includes business and personal property, commercial general liability, owned, non-owned and hired automobiles, fidelity bond, and directors' and officers' liability. The premiums paid on the policies for the year ended June 30, 2008 were \$9,347.

If the District's losses exceed its premiums, there is no supplemental assessment; on the other hand, if the District's losses are low, they do not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier.

NOTE 10. Prior Period Adjustment

During the current year, it was determined that certain prior year revenues totaling \$87,149 were incorrectly recorded as revenues in the current year. To correct this error, the beginning fund balance of \$1,825,774, as originally reported, has been increased to \$1,912,923.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 11. Subsequent Events

On January 15, 2007 the Communications Workers of America (CWA) filed a grievance on behalf of seven former District employees alleging that the District, in violation of the collective bargaining agreement, had

- Wrongfully removed job duties from the Administrative assistant and subsequently removed the position from the bargaining agreement
- Threatened bargaining unit employees, the District suspended and subsequently fired an employee
- Filed to remove the Administrative Secretary position from the bargaining unit
- Refused to negotiate a wage re-opener
- Reduced employee hours and laid off a bargaining unit employee without bargaining with the Union
- Terminated all employees without notice to or negotiation with the CWA

The District either disagreed with the CWA's position or denied the allegations. On October 1, 2008, through mediation, the District reached an agreement with the CWA and agreed to pay undisclosed amounts and agreed to other undisclosed terms. In return the CWA agreed to withdraw all grievances filed with the New Mexico Public Employee Labor Relations Board.

On August 26, 2009 a lawsuit was filed against the District by Plaintiff Mr. Bill Gideon for failure to respond to a public records request in 2005, failure to provide Mr. Gideon with legal representation and violation of Mr. Gideon's civil rights. On January 22, 2010 the District offered Mr. Gideon a settlement that he accepted on January 25, 2010. As part of the settlement the District will pay Mr. Gideon's legal expenses of \$7,500, and \$35 per day for every day they did not respond to his public records request, estimated to be total of 925 days with a total liability of \$32,375. The \$32,375 is to be paid in monthly installments of \$2,000 until the debt is paid off. In return Mr. Gideon agreed to drop the lawsuit.

On August 26, 2008 a lawsuit was filed against the District by Plaintiffs Mr. Virgil Beagles, Mr. Dwayne Beagles, Ms. Patricia Beagles, Ms. Amanda Beagles, Mr. Arlin Gambel, Ms. Linda Gambel, and Mr. Wayne Mahy for allegedly violating voting rights under the Federal Voting Rights Act. On March 17, 2010 a settlement was offered by the District to the Plaintiffs and accepted. As part of the settlement the District is to pay the Plaintiffs a total of \$10,000 and in return the Plaintiffs dropped the lawsuit.

On July 11, 2008 a lawsuit was filed against the district by Plaintiffs Mr. Virgil Beagles, Mr. Dewayne Beagles, Mr. Arlin Gambel and Ms. Linda Gambel alleging illegal contracting with independent contractors that did not have a license to perform the contractor work involving the repair of roads. The case is still pending in the Twelfth Judicial District in Otero County. However, two partial summary judgments were granted to the Plaintiffs. The first was granted on February 5, 2009 granting the Plaintiffs \$6,400 as damages representing the time in which the District failed to respond to a public information request. The second was granted on April 22, 2009 granting the Plaintiffs \$2,310 representing eleven hours of attorney fees plus gross receipts tax. Both were paid on July 9, 2009.

In connection with the lawsuit filed on July 11, 2008, the Court found on July 21, 2010 that:

1. There is a significant risk that the District will be unable to pay its bills as they become due.
2. The District's financial difficulty to make payroll and to pay bills poses a serious threat to the health, welfare and safety of the residents and property owners within the District.
3. The District's records are in such disarray that the auditor could not audit the records in the manner required by law.

As a result of these findings the Court placed the District into a court supervised receivership pursuant to the New Mexico Receivership Act Sections 44-8-1 to 44-8-0 BNSA 1978 and in accordance with Rule 1-066 NMRA 2010. The receivership is to continue until the trial which is scheduled to take place with the next 120 days after this court order. The Court also appointed a Receiver Pendent Lite and urged the elected Board of Directors of the District to not interfere with the court supervised operation and management of the District by the receiver, who is to report to the Court once a month.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Notes to the Financial Statements
June 30, 2008

NOTE 11. Subsequent Events (continued)

LGIP Investment in the Reserve Primary Fund

The New Mexico State Treasurer's Office invested a portion of the LGIP in the Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, the Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen. Since September 2008, the Reserve Primary Fund has returned approximately \$0.90 per share to shareholders. On February 26, 2009, the Reserve Primary Fund announced that it was withholding \$3.5 billion of the Fund's assets for anticipated and pending litigation against it, which amount could increase or decrease as the Fund evaluates information related to such litigation. As a result, the State Treasurer's Office cannot anticipate what the actual loss to the LGIP from the Reserve Primary Fund may be or when the actual loss may be realized. No actual loss has been realized to date. The total remaining Reserve Primary Fund position as of June 30, 2009 is \$39.5 million. The LGIP's remaining position in the Reserve Primary Fund is a non-performing asset.

On May 5, 2009, the U.S. Securities and Exchange Commission ("SEC") filed a civil lawsuit in federal court against the operators of the Reserve Primary Fund, alleging fraud; seeking the pro rata distribution of the remaining Fund's assets; and seeking the release of the \$3.5 billion currently being withheld from investors pending the outcome of the lawsuits against the Reserve Primary Fund. The court is scheduled to hold a hearing on the SEC's proposed plan of distribution on September 23, 2009.

On May 20, 2009, the New Mexico Attorney General filed a civil complaint and injunction petition in state district court against the Reserve Primary Fund. The Attorney General's complaint alleges that the Fund setting aside \$3.5 billion to pay legal fees and expenses is a willful and intentional conversion of the investors' assets and a breach of contract. The complaint further alleges that the Fund's failure to honor redemption requests on September 16, 2008 is a breach of contract. Additionally, the Attorney General's injunction petition seeks the release of the investors' pro rata share of the \$3.5 billion the Reserve Primary Fund set aside for its anticipated and pending legal costs.

The New Mexico State Treasurer's Office believes that the Reserve Primary Fund will ultimately end up distributing between 98.38% and 98.77% of the balance that the LGIP had in the Reserve Primary Fund as of September 15, 2008. This means that of the remaining undistributed balance as of June 30, 2009, it is expected the LGIP is to recover between 83.84% and 87.78%. Uncertainty remains, however, as to the timing of these distributions.

NOTE 12. Subsequent Pronouncements

In July 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009. For governments that were classified as phase 1 or phase 2 governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The County is analyzing the effect that this standard will have on the financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The County is analyzing the effect that this standard will have on the financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
 Timberon Water and Sanitation District
 Statement of Revenues, Expenses and Changes in Net Assets
 Budget (GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2008

Schedule A-1

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Water services and fees	\$ 314,805	\$ 314,805	\$ 195,247	\$ (119,558)
Trash collection	30,000	30,000	40,738	10,738
Recreational fees	5,635	5,635	3,253	(2,382)
Refunds and reimbursements	11,800	11,800	6,458	(5,342)
Rents and royalties	3,200	3,200	7,725	4,525
Other operating revenues	2,825	2,825	2,855	30
<i>Total operating revenues</i>	<u>368,265</u>	<u>368,265</u>	<u>256,276</u>	<u>(111,989)</u>
<i>Operating expenses</i>				
Administration	106,560	106,560	73,168	33,392
General maintenance	46,490	46,490	35,581	10,909
Parks and recreation	50,537	50,537	5,206	45,331
Road maintenance	22,757	22,757	5,361	17,396
Water utilities	798,822	798,822	205,047	593,775
Cemetery	2,244	2,244	45	2,199
Golf course	22,122	22,122	13,429	8,693
Depreciation	-	-	105,418	(105,418)
<i>Total expenses and uses</i>	<u>1,049,532</u>	<u>1,049,532</u>	<u>443,255</u>	<u>606,277</u>
<i>Operating loss</i>	(681,267)	(681,267)	(186,979)	494,288
<i>Non-operating revenues (expenses)</i>				
Property taxes	128,045	128,045	332,185	204,140
Interest income	5,000	5,000	14,718	9,718
<i>Income (loss) before capital grants</i>	<u>133,045</u>	<u>133,045</u>	<u>346,903</u>	<u>213,858</u>
Capital and non capital grants	372,766	372,766	325,457	(47,309)
<i>Change in net assets</i>	(175,456)	(175,456)	485,381	660,837
Designated cash	175,456	175,456	-	175,456
<i>Total net assets, beginning of year as restated</i>	-	-	1,841,242	1,841,242
<i>Restatement (note 10)</i>	<u>-</u>	<u>-</u>	<u>87,149</u>	<u>87,149</u>
<i>Net assets, beginning of year as restated</i>	<u>-</u>	<u>-</u>	<u>1,928,391</u>	<u>2,677,535</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,413,772</u>	<u>\$ 3,338,372</u>

The accompanying notes are an integral part of these financial statements

SUPPORTING INFORMATION

STATE OF NEW MEXICO
 Timberon Water and Sanitation District
 Schedule of Collateral Pledged by Depository For Public Funds
 June 30, 2008

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Value June 30, 2009</u>	<u>Name and Location of Safekeeper</u>
Western Bank	FHLMC ARM 420109	2/1/2019	31346ADN2	\$ 322,495	Federal Home Loan Bank of Dallas, PO Box 619026, Dallas, TX 75261-9026

See accompanying independent auditor's report

STATE OF NEW MEXICO
 Timberon Water and Sanitation District
 Schedule of Deposit and Investment Accounts
 June 30, 2008

Bank Account Type/Name	Deposits	Investment	Totals
	Western Bank	NMFA	
Checking	\$ 75,368	\$ -	\$ 75,368
Savings	197,419	-	197,419
Investment	-	278,457	278,457
Total on deposit	272,787	278,457	551,244
Reconciling items	(8,954)	-	(8,954)
Reconciled balance	\$ 263,833	\$ 278,457	\$ 542,290

See accompanying independent auditor's report



Accounting & Consulting Group, LLP
Certified Public Accountants

**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***

Hector Balderas
New Mexico State Auditor
The Office of Management and Budget
and
Arden Schug, Chairman
Members of the Board of Directors
Timberon Water & Sanitation District
Timberon, New Mexico

We were engaged to audit the accompanying basic financial statements of the business-type activities of Timberon Water and Sanitation District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. We were also engaged to audit the budgetary comparison presented as supplementary information for the year ended June 30, 2008, as listed in the table of contents. The financial statements are the responsibility of the District's management. Since we were unable to obtain sufficient competent evidential matter to support the District's receivables, allowance for uncollectible receivables, capital assets, accumulated depreciation, depreciation expense, revenues, and expenses, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the basic financial statements and the budgetary comparison as of and for the year ended June 30, 2008.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as items: FS 2008-01, FS 2008-02, FS 2008-03, FS 2007-01, FS 2007-02, FS 2007-03, FS 2007-04, FS 2007-05, FS 2007-06, FS 2007-07 and FS 2007-08.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items FS 2008-02, FS 2008-03, FS 2007-01, FS 2007-02, FS 2007-03, FS 2007-04, FS 2007-05, FS 2007-06, FS 2007-07 and FS 2007-08.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items FS-2008-01, FS-2008-02, FS-2007-06 and FS-2007-07.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District, management, members of the governing body, Office of the State Auditor, the New Mexico State Legislature and its committees, the New Mexico Department of Finance and Administration, applicable federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
June 23, 2010

STATE OF NEW MEXICO
 Timberon Water & Sanitation District
 Schedule of Findings and Questioned Costs
 June 30, 2008

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

1.	Type of auditors' report issued	Disclaimer				
2.	Internal control over financial reporting:					
a.	Material weakness identified?	Yes				
b.	Significant deficiencies identified not considered to be material weaknesses?	Yes				
c.	Noncompliance material to the financial statements noted?	Yes				
3.	Summary of audit findings:					
a.	Current Year Audit Findings:					
	FS 2008-01 — Overpayment of Mileage Reimbursement					
	FS 2008-02 — Procurement					
	FS 2008-03 — Lack of Control for Receipts					
b.	Follow-up on Prior-Year Audit Findings:	<table border="0" style="margin-left: auto; margin-right: 0;"> <tr> <td style="text-align: right; padding-right: 10px;">Status of Prior Year</td> <td style="text-align: left;">Findings</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black; border-bottom: 1px solid black;"></td> </tr> </table>	Status of Prior Year	Findings		
Status of Prior Year	Findings					
	FS 2007-01 — Untimely Audit Report	Repeated				
	FS 2007-02 — Internal Control Design, Operation, Oversight and Segregation of Duties	Repeated and modified				
	FS 2007-03 — Preparation of Financial Statements and Journal Entries	Repeated				
	FS 2007-04 — Control over Information and Communication	Repeated				
	FS 2007-05 — Employee vs. Contract Labor	Repeated				
	FS 2007-06 — Capital Assets	Repeated and modified				
	FS 2007-07 — PERA Wages and Contributions	Repeated				
	FS 2007-08 — Failure to Locate Supporting Documents for Disbursements	Repeated and modified				

B. FINDINGS-FINANCIAL STATEMENT AUDIT

FS 2007-01 — Untimely Audit Report (repeated)

Condition: The audit report was filed on August 11, 2010.

Criteria: Per 2.2.2.9.A (b) (d), NMAC, a District is required to submit audited annual financial statements by December 1 of the year being audited.

Effect: The annual audit was performed long after the year end date.

Cause: Turnover and layoffs in personnel at the District resulted in the books being posted late causing a delay in the timing of the audit.

Auditors' Recommendation: We recommend that the District close its books earlier in the year so that the annual audit can be performed and submitted within the requirements of the State Auditor.

Agency's Response: We agree with the effect. However, we would add that the bankruptcy filing added to the cause. When the bankruptcy was filed, the record appears to reflect that the District had started the audit, but was directed to halt its audit activities.

FS 2007-02 — Internal Control Design Operation, Oversight and Segregation of Duties (repeated and modified)

Condition: During our audit testwork, we observed areas where the District could strengthen its system of internal control and segregation of duties.

Control over Reconciliations – Cash reconciliations are not always being prepared on a monthly basis, and the reconciliations do not document who prepared and who reviewed them.

Allowance for doubtful accounts– The District has not adopted a methodology for reviewing the collectability of accounts receivable for standby fees, trash fees and metered water fees.

Accounts Payable authorization– Purchases are done centrally by the accounts payable clerk with only verbal approval by the general manager

Accounts Payable checks– Checks are kept on the floor and not in a secure location.

Subsidiary reconciliations – The accounts payable, accounts receivable, and payroll subsidiary ledgers are not being reconciled to the general ledger. In addition, errors posted to the accounts receivable subsidiary ledger are not posted to the general ledger.

Control over Accounts Payable - The Accounts Payable Clerk uses the accountant's computer system to enter invoices and accesses the program with the accountant's password with full access to all modules.

Control over Capital Assets – A listing of capital assets was not kept with depreciation expense being calculated. The capital asset listing is not inventoried on an annual basis, and assets are not tagged for identification.

Employee Payroll Files- Changes made to employee files are not approved or reviewed when they are entered in the system.

FS 2007-02 — Internal Control Design Operation, Oversight and Segregation of Duties (continued)

Unclaimed Payroll checks- The District does not have a plan in place to handle unclaimed checks.

Control over Payroll – The accountant who prepares payroll checks also resolves employee payroll inquiries and edits the payroll master file.

Line Extension Agreements – The District has not adopted a methodology for reviewing and tracking payments that should be made to customers for line extension agreements and accordingly has not been able to determine the correct balance for these accounts.

Control over cash receipts – The clerk who opens the mail also prepares deposits, investigates discrepancies in customer accounts and maintains the cash receipts journal.

Criteria: Effectively designed systems of internal control assist an organization to accurately and efficiently record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. (SAS AU 325.02)

Effect: When an organization does not implement a good system of internal control, the organization's ability to effectively and efficiently control, process and record transactions can be negatively impacted.

Cause: The District had turnover and layoffs of all office personnel and during the change there may have been sufficient chaos to cause the conditions.

Recommendation: We recommend the District evaluate its systems of internal control over financial reporting and implement the levels of control necessary to make sure the system is designed and operating efficiently and effectively in the current environment.

Agency's Response: We agree with the finding that financial control policies need to be developed and implemented, and appreciate the finding that a segregation of duties is desirable. We are already evaluating our financial systems of internal control, and will be presenting to the Timberon Water and Sanitation District (TWSD) Board of Directors a draft financial controls policy resolution in conjunction with its Fiscal 2011 budget.

FS 2007-03 — Preparation of Financial Statements and Journal Entries (repeated)

Condition: The financial statements and related footnote disclosures were not prepared by Timberon Water & Sanitation District. In addition, certain journal entries were prepared in order to present the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Journal entries were prepared in the areas of accounts receivable, accrued payroll, accounts payable, capital assets, long term debt and equity. Furthermore, the District was unable to provide sufficient evidence supporting the allowance for doubtful accounts for accounts receivable.

Criteria: According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The recording of appropriate journal entries is a significant part of the controls over financial statement preparation. The fact that the auditor prepares the financial statements and assisted in the preparation of the journal entries may mean the financial statements are correct, but it doesn't eliminate the control deficiency.

Effect: The District's ability to prevent or detect a misstatement in its financial statements is limited when sufficient controls over the recording of appropriate journal entries, the preparation of financial statements and related disclosures is not designed, implemented and operating effectively.

2007-03 — Preparation of Financial Statements and Journal Entries (continued)

Cause: District personnel have not been adequately trained in understanding the elements of financial reporting including the preparation of financial statements and related footnote disclosures. As a result, the District is not aware of all the necessary journal entries that are required to be prepared to present their financial statements in accordance with GAAP.

Auditor's Recommendation: We recommend District personnel receive training on understanding the requirements of financial reporting and the journal entries required. In addition, we recommend that the District develop and **FS** implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Agency's Response: Frankly speaking, TWSD in fiscal 2007 did not have personnel qualified to either perform or be trained in the financial reporting tasks outlined in this finding. Further, current personnel are not qualified to be trained in the types of reports and financial statement preparation necessary to correct this finding. It has been, and continues to be my recommendation to the TWSD Board that outside accounting services be retained with the ability to prepare the financial statements, including journal entries. Currently, we are preparing to go out for RFP for accounting services.

FS 2007-04 — Control over Information and Communication (repeated)

Condition: The District has little or no controls in place to make sure information is properly identified, captured and used at all levels of the entity to support the financial reporting objectives. Specifically, process procedures are not written and management would have difficulty determining whether the control objectives were met, data underlying financial statements do not appear to be captured completely and timely and because of pending lawsuits, communication does not appear to exist between management and one of the board members, keeping both from fulfilling their roles with respect to the financial reporting objectives.

Criteria: Effectively designed systems of internal control assist an organization to accurately and efficiently record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. (SAS AU 325.02)

Effect: When an organization does not implement a good system of internal control, the organization's ability to effectively and efficiently control, process and record transactions can be negatively impacted.

Cause: The District had turnover and layoffs of all office personnel and legal turmoil. In the midst of all this, there may have been sufficient chaos to prevent personnel from developing good controls.

Auditors' Recommendation: We recommend that the District put mechanisms in place to identify, capture all information necessary to meet financial reporting objectives.

Agency's Response: These controls will be recommended to the TWSD Board and implemented as part of its financial controls policy that will be submitted to the Board in conjunction with the fiscal 2011 budget.

FS 2007-05 — Employee vs. Contract Labor (repeated)

Condition: The District classified compensation for services as contract labor paid to an independent contractor, however, the facts and circumstances indicated the payments should have been classified as wages paid to an employee.

FS 2007-05 — Employee vs. Contract Labor (continued)

Criteria: The Internal Revenue Service (IRS) requires employers to consider the nature of the business relationship with employees and if there is any doubt as to the status of an employee to classify them as regular employees rather than contract employees.

Effect: Improperly hiring contract employees could cause the District to be in violation of IRS rules and could be liable for employment taxes for all workers improperly classified.

Cause: Cash shortages, turnover and layoffs in personnel caused the District to hire contract employees to fill the voids left by former employees.

Auditors' Recommendation: We recommend that the District use the Common Law Rules provided by the IRS to carefully consider the degree of control and independence of each employee in order to properly classify employees and contractors.

Agency's Response: This issue has already been corrected. TWSD currently hires all employees, including office personnel, and has done away with all contracted service positions.

FS 2007-06 — Capital Assets (repeated and modified)

Condition: The District has not completed a capital asset inventory in several years and during fiscal year 2008 did not record new additions that might have been added or deletions that might have been disposed of. For the assets that may have disposed, the District failed to notify the State Audit of the planned disposition.

Criteria: According to the 2007 State Audit Rule 2.2.2.10 X, at least 30 days prior to disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the active must be sent to the State Auditor. The District is also required to maintain a detailed capital asset listing with a corresponding depreciation schedule.

Effect: The District may have disposed of property and equipment but failed to notify the State Auditor of such disposition in accordance with 2007 State Audit Rule 2.2.2.10 X. This disposal of property and equipment without notification to the State Auditor places the County in noncompliance with the State Audit Rule. In addition, the District's books or records could potentially contain misstatements, as errors, whether intentional or unintentional, that may occur and not be detected in a timely manner.

Cause: High turnover with staff since the balance sheet date and the use volunteers to complete accounting functions appears to be the cause.

Auditors' Recommendations: The District must notify the State Auditor at least thirty days prior to planned disposition of property and equipment. We also recommend for District personnel to conduct a complete capital asset inventory.

Agency's Response: We fully agree. TWSD records show no evidence of a thorough inventory in fiscal 2008. Management will be conducting a full inventory which includes tagging assets, matching purchasing records with actual equipment where practicable, setting up a computer database of assets, and flagging items or properties for disposal. Our tentative goal is to address this finding, at least in part, in time for the fiscal 2010 audit. In addition we could find no proof of notification of the State Auditor regarding the disposition of property or equipment. This finding is duly noted, and we will include in the TWSD financial controls policy the State Audit Rule requirement.

FS 2007-07 – PERA Wages and Contributions (revised and modified)

Condition: PERA wages per the PERA reports do not agree with the general ledger. Also, a recalculation of the PERA contributions using the PERA reported wages does not calculate correctly.

Per PERA report

Wages	Employee contributions	Employer contributions
9,493	1,412	479

Per General Ledger

Wages	Employee contributions	Employer contributions
24,774	1,412	479

Recalculation of Contributions

Wages	Employee contributions	Employer contributions
24,774	664	664

Criteria: The Public Employees Retirement Act (Section 10-11-1 to 10-11-141 NMSA 1978) stipulates that 100% of payroll is reported to PERA.

Effect: The District's books or records could potentially contain misstatements, as errors, whether intentional or unintentional, may occur and not be detected in a timely manner.

Cause: A lack of verification and reconciliation of the PERA records appears to be the cause of this condition.

Auditors' Recommendation: We recommend that the District design and implement control procedures to ensure that the PERA reporting reconciles to the general ledger and that payments are not made twice for the same pay period.

Agency's Response: This finding may be best corrected by TWSD retaining outside accounting services.

FS 2007-08 — Failure to Locate Supporting Documents for Disbursements (repeated and modified)

Criteria: According to State Regulation 2.2.2.10 (H) (1), NMAC, the District should be in compliance with the State Procurement Code for all purchases. Good accounting practices require that all purchases are properly approved and recorded on a timely basis.

Condition: During fieldwork, we noted 11 instances out of 116 in which supporting documentation could not be located for transactions. These were check numbers 14448, 14449, 14492, 14544, 14552, 14609, 14882, 14893, 14860, 14859, 14649, 14449, 14448, 14492, 14544, 14552, 14609, 14649, and 14682 for a total of \$33,567.

Effect: There was no audit trail and we were unable to perform audit procedures on specific transactions.

Cause: High turnover with staff since the balance sheet date and using volunteers to file appears to be the cause.

FS 2007-08 — Failure to Locate Supporting Documents for Disbursements (continued)

Auditor's Recommendation: We recommend that all disbursements should contain proper and supporting documentation with appropriate authorization. Individuals authorizing disbursements must be knowledgeable about budget and grant requirements. Personnel must submit receipts for reimbursement before they are processed.

Agency's Response: We agree with this finding, and will include appropriate language in the financial controls policies under development.

FS 2008-01 — Overpayment of Mileage Reimbursement

Condition: During our review of travel and per diem expenses, we noted one (1) disbursement for approximately \$48.95 out of one (1) disbursements totaling approximately \$48.95 revealed that the District reimbursed an employee at a rate forty four and a half cents (\$.445) a mile, which exceeds the allowable rate for reimbursement. Therefore the reimbursement for mileage should have been \$35.20, and the District has overpaid the board member \$13.75.

Criteria: The Mileage and Per Diem Act, NMSA 1978, Sections 10-8-1 through 10-8-8, and Section 2.42.2 NMAC requires that the District reimburse each public officer or employee thirty-two cents (\$.32) a mile for each mile traveled in a privately owned vehicle if the travel is necessary for the individual to perform their official duties. Proper internal controls should be in place to ensure that the District is in compliance with allowable rates and that the District becomes aware of any changes to the rates as they occur.

Effect: The District has over compensated the employee for his travel and is in violation of the Mileage and Per Diem Act.

Cause The overpayment appears to be an error due not having an adequate understanding of the proper rates to be used for mileage reimbursement.

Recommendation: We recommend the District follow the Mileage and Per Diem Act, when paying per diem and travel reimbursements. The District should ensure that it has access to and has reviewed the Mileage and Per Diem Act as well as the New Mexico State Auditor Rule. Furthermore, the District should be certain that it updates these on an annual basis. We also recommend that the District request that the board member reimburse the District in the amount of \$24.

Agency's Response: The District has corrected its rate to the current state approved rate, which is \$.505 per mile. Also, if the auditor will let us know which Board membership issue refers to, we will follow through on the request of reimbursement back to the District for the overage.

FS 2008-02 — Procurement

Criteria: Per NMAC 73-21-16, Water and Sanitation District Act, NMSA 1978, sealed bids should be obtained for all construction contracts involving an expense of \$5,000 or more. In addition, per NMAC 13-1-28, Procurement Code, NMSA 1978, the District's hired contractors must be licensed.

Condition: During testwork of State Auditor Compliance, concerning Bids, the District paid for services totaling \$332,764. The District failed to obtain sealed bids for the purchase. In addition, the District received and accepted the bid from an unlicensed contractor.

Effect: The District is not in compliance with the Water and Sanitation District Act as well as the Procurement Code, which could result in penalties.

FS 2008-02 — Procurement (continued)

Cause: The District needed to repair the roads and did not see any other options to do so at the time.

Auditor's Recommendation: We recommend the District to comply with the water and sanitation district and procurement code and obtain sealed bids for all services over \$5,000 that are from licensed contractors.

Agency's Response: Sealed bids for acquisition of goods or services is now a standard practice of this District for services over \$5,000.

FS 2008-03 — Lack of Controls for Receipts

Criteria: Good internal controls and sound business practice requires that the District provide adequate support for receipts, trace the receipts to the deposit books, and trace the receipts to the general ledger

Condition: There was one receipt out of 27 receipts tested that there was no supporting documentation provided for.

Effect: There is no way of verifying the receipt occurred and that it was deposited.

Cause: Errors in record keeping and missing supporting documentation caused by lack of staff or volunteer staff.

Auditor's Recommendation: Town needs to make sure and retain documentation for receipts and deposits

Agency's Response: We concur with the auditor's findings and recommendation.

STATE OF NEW MEXICO
Timberon Water & Sanitation District
Other Disclosures
June 30, 2008

A. AUDITOR PREPARED FINANCIAL STATEMENTS

The financial statements and notes to the financial statements were prepared by the independent certified public accountants performing the audit. Although it would be preferred and desirable for the District to prepare its own GAAP-basis financial statements, it is felt that the District's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report. Timberon Water & Sanitation District is responsible for ensuring the books and records adequately support the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and the records are current and in balance. Management has reviewed and approved the financial statements and notes to financial statements.

B. EXIT CONFERENCE

The contents of this report were discussed on June 23, 2010. The following individuals were in attendance.

Timberon Water & Sanitation District
Arden Schug, Chairman
Virgil Beagles, Member
Martin Moore, General Manager

Accounting & Consulting Group, LLP
Jeff McWhorter, CPA, Audit Director
Corrine Franzen, CPA, Audit Senior