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**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2009

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
TABLE OF CONTENTS
JUNE 30, 2009

	<u>Page</u>
OFFICIAL ROSTER	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10
NOTES TO FINANCIAL STATEMENTS	11
SUPPLEMENTARY INFORMATION	
Statement of Revenues and Expenses, and Changes in Net Assets – Budget (GAAP Budgetary Basis) and Actual (Cash Basis):	23
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Collateral Pledged by Depository for Public Funds	24
Schedule of Deposits Accounts	25
REPORT ON INTERNAL CONTROL 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>	26
Schedule of Findings and Responses	28
Exit Conference	38

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
OFFICIAL ROSTER
JUNE 30, 2009

Board of Directors

<u>Name</u>	<u>Title</u>
<i>Arden Schug</i>	<i>Chairman</i>
<i>Burt Rubinowitz</i>	<i>Vice-Chairman</i>
<i>Pete Bowidowicz</i>	<i>Member</i>
<i>Virgil Beagles</i>	<i>Member</i>
<i>Joe Mainello</i>	<i>Treasurer</i>

Administrative Officials

<i>Martin Moore</i>	<i>General Manager</i>
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INDEPENDENT AUDITORS' REPORT

Arden Schug, Chairman
Members of the Board of Directors
Timberon Water and 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, 2009, 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, 2009, 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 perform monthly reconciliation procedures and retain historical subsidiary information 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 maintain and 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 procedure for reviewing and tracking payments that should be made to customers for the line extension payable balances 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 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 11 to the financial statements the District has been subject to numerous lawsuits. We did not receive responses to our legal letters sent to certain attorneys that represented the District during the year ended June 30, 2009. 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, 2009 and not be properly recorded or disclosed. The District's records do not permit the application of other auditing procedures to determine the amount of contingent liabilities that may be required by generally accepted accounting principles to be recorded or disclosed.

Arden Schug, Chairman
Members of the Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico
Page Two

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 District's receivables, allowance for uncollectible receivables, capital assets, accumulated depreciation, depreciation expense, revenues, 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, 2009.

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information. 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 on the table of contents is 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 the accompanying information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Kriegel/Gray/Shaw & Co., P.C.

Kriegel/Gray/Shaw & Co., P.C.

June 26, 2012

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

Introduction

As management of the Timberon Water and 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, 2009.

Financial Highlights

Key events for the Fiscal Year 2009 are:

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$2,162,290 (*total net assets*). The components of net assets include invested in capital assets, net of related debt \$1,810,875, and unrestricted net assets \$351,415.
- The District's total net assets increased by \$114,142 compared to the prior year. This increase results primarily from increased grants and prior period adjustment.
- As of June 30, 2009, the District had current and noncurrent assets totaling \$550,841 and \$1,810,875, respectively. Capital assets, net of accumulated depreciation totaled \$1,810,875. Current liabilities include \$174,105 in accounts payable, and \$17,799 in payroll 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 8 – 10 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.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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 11 – 22 of this report.

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 \$2,162,290 is reported at the close of the most recent fiscal year.

For the years ended June 30, 2009 and 2008, the District reported \$351,415 and \$410,988 of net assets as unrestricted, respectively.

Overview of the Statement of Net Assets

	2009	As Restated 2008	Variance
Assets:			
Current assets	\$550,841	\$622,220	(\$71,379)
Capital assets, net	1,810,875	1,637,160	173,715
Total assets	\$2,361,716	\$2,259,380	\$102,336
Liabilities:			
Current liabilities	\$191,904	\$203,710	(\$11,806)
Noncurrent liabilities	7,522	7,522	0
Total liabilities	199,426	211,232	(11,806)
Net Assets:			
Invested in capital assets, net of related debt	1,810,875	1,637,160	173,715
Unrestricted	351,415	410,988	(59,573)
Total net assets	\$2,162,290	\$2,048,148	\$114,142

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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

	2009	As Restated 2008	Variance
Revenues:			
Water service and fees	\$331,326	\$218,973	\$112,353
Trash collection	27,051	40,738	(13,687)
Recreational fees	6,884	3,253	3,631
Other operating revenue	67,110	17,038	50,072
<i>Total revenues</i>	432,371	280,002	152,369
Expenses:			
Administration	228,440	73,168	155,272
General maintenance	64,773	35,581	29,192
Parks and recreation	61,677	5,206	56,471
Road maintenance	32,213	372,394	(340,181)
Water utilities	331,524	194,713	136,811
Cemetery	57	45	12
Golf course	34,921	13,429	21,492
Miscellaneous	56,681	0	56,681
Depreciation	105,131	119,624	(14,493)
Interest and penalties	5,340	0	5,340
<i>Total expenses</i>	920,757	814,160	106,597
<i>Non-operating revenue</i>	602,528	476,340	126,188
<i>Increase (decrease) in net assets</i>	114,142	(57,818)	171,960
Net assets – beginning	2,048,148	2,105,966	(57,818)
<i>Net assets – Ending</i>	\$2,162,290	\$2,048,148	\$114,142

Financial Analysis of the District's Funds and Fiscal Year 2009 Budgetary Highlights

As noted above, net assets increased by \$114,142 from fiscal year 2008 to fiscal year 2009. Net increase is shown after adjustment for the restatement. Total revenues increased by \$152,369, mainly due to an increase in capital grants of \$141,885. However, total expenses increased in fiscal year 2009 to \$920,757, an increase of \$106,597 over the fiscal year 2008 expenses of \$814,160. The major factor in this increase in spending was an increase in administrative costs resulting from attorney fees.

There was no budget prepared.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2009 totals \$1,810,875 (net of accumulated depreciation). Major capital events during the fiscal year included the following:

Construction in process for various water system projects of \$222,272.

Additional information on the District's capital assets can be found on page 18 of this report.

Financial Outlook for Next Year

The District received FEMA funds for road repairs and other state grant reimbursements for 2009 expenses. Some employees laid off in the previous year were re-employed.

Requests for Information

This financial report is designed to provide a general overview of the Timberon Water and 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 and Sanitation District, 1 Bobwhite Circle, Timberon, New Mexico 88350.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Business-Type Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$168,649
Inventory	85,562
Accounts receivable - customers - metered water and trash	15,796
Grants receivable	234,899
Stand-by fees receivable (net of allowance for doubtful accounts of \$169,325)	23,726
Property taxes receivable	22,209
<i>Total current assets</i>	550,841
Capital Assets:	
Land	147,507
Construction in process	231,947
Infrastructure - water system	1,453,689
Buildings and improvements	667,697
Furniture, equipment, and vehicles	676,650
Allowance for depreciation	(1,366,615)
<i>Total capital assets, net</i>	1,810,875
Total assets	\$2,361,716
 LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$174,105
Payroll liabilities	17,799
<i>Total current liabilities</i>	191,904
Noncurrent Liabilities:	
Line extension agreements	7,522
<i>Total noncurrent liabilities</i>	7,522
<i>Total liabilities</i>	199,426
Net Assets:	
Invested in capital assets, net of related debt	1,810,875
Unrestricted	351,415
<i>Total net assets</i>	2,162,290
Total liabilities and net assets	\$2,361,716

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-Type Activities
OPERATING REVENUES	
Water services and fees	\$331,326
Trash collection	27,051
Recreational fees	6,884
Refunds and reimbursements	2,241
Rents and royalties	5,681
Contributions/donations	3,000
Operating grants	55,000
Other operating revenues	1,188
<i>Total operating revenues</i>	432,371
OPERATING EXPENSES	
Administration	228,440
General maintenance	64,773
Parks and recreation	61,677
Road maintenance	32,213
Water utilities	331,524
Cemetery	57
Golf course	34,921
Miscellaneous	56,681
Depreciation	105,131
Interest and penalties	5,340
<i>Total operating expenses</i>	920,757
<i>Operating income (loss)</i>	(488,386)
NON-OPERATING REVENUE AND (EXPENSES)	
Property tax, net of county's administrative fees	132,366
Interest revenue	2,820
<i>Total non-operating revenue and (expenses)</i>	135,186
<i>Income (loss) before capital grants</i>	(353,200)
<i>Capital grants</i>	467,342
<i>Change in net assets</i>	114,142
Total net assets, beginning of year	2,413,772
Restatements	(365,624)
Total net assets, beginning of year, as restated	2,048,148
<i>Total net assets, end of year</i>	\$2,162,290

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$450,275
Payments to suppliers and contractors	(812,164)
Payments to and benefits provided for employees	(100,830)
<i>Net cash provided by operating activities</i>	(462,719)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net property taxes received	132,660
<i>Net cash provided by noncapital financing activities</i>	132,660
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital grant	232,443
Purchase of capital assets	(278,846)
<i>Net cash used by capital financing activities</i>	(46,403)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	2,820
Sale of investments	278,457
<i>Net cash provided by investing activities</i>	281,277
<i>Net increase in cash and cash equivalents</i>	(95,185)
Cash and cash equivalents - beginning of year (restated to include petty cash of \$600)	263,834
<i>Cash and cash equivalents - end of year</i>	\$168,649
 RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES	
Operating Income (loss)	(\$488,386)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	105,131
Change in assets and liabilities:	
Decrease in accounts receivable	17,904
Increase in inventory	(85,562)
Decrease in accounts payable	(29,521)
Increase in accrued liabilities	17,715
<i>Total adjustments</i>	25,667
<i>Net cash provided (used) by operating activities</i>	(\$462,719)

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. HISTORY AND ORGANIZATION

The Timberon Water and 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*.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.
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. The District did not adopt a budget in accordance with the above requirements for the year ended June 30, 2009 due to significant volatility in personnel, see finding 2009-02.

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.

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.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Inventories: Inventories are valued at cost using the first-in/first-out (FIFO) method.

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.

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 improvement	10 – 40
Furniture, equipment, and vehicles	5 – 20
Infrastructure – water system	10 – 25

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.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligation: 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 government's 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 in 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, 2009.

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.

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, 2009, \$0 of the District's deposits of \$206,814 were exposed to custodial credit risk. \$0 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.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE. 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Western Bank	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$42,817	\$53,586	\$96,403
Less FDIC coverage	(42,817)	(53,586)	(96,403)
Total uninsured public funds	0	0	0
Collateralized by securities held by a pledging institutions or by its trust department or agent in other than the Authority's name	0	0	0
Uninsured and uncollateralized	\$0	\$0	\$0
Collateral requirement (50% of uninsured funds)	\$0	\$0	\$0
Pledged collateral	0	0	0
Over (under) collateralized	\$0	\$0	\$0

First National Bank	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$104,622	\$0	\$104,622
Less FDIC coverage	(104,622)	0	(104,622)
Total uninsured public funds	0	0	0
Collateralized by securities held by a pledging institutions or by its trust department or agent in other than the Authority's name	0	0	0
Uninsured and uncollateralized	\$0	\$0	\$0
Collateral requirement (50% of uninsured funds)	\$0	\$0	\$0
Pledged collateral	0	0	0
Over (under) collateralized	\$0	\$0	\$0

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE. 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Compass Bank	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$4,899	\$0	\$4,899
Less FDIC coverage	(4,899)	0	(4,899)
Total uninsured public funds	0	0	0
Collateralized by securities held by a pledging institutions or by its trust department or agent in other than the Authority's name	0	0	0
Uninsured and uncollateralized	\$0	\$0	\$0
Collateral requirement (50% of uninsured funds)	\$0	\$0	\$0
Pledged collateral	0	0	0
Over (under) collateralized	\$0	\$0	\$0

Otero Federal Credit Union	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$890	\$0	\$890
Less FDIC coverage	(890)	0	(890)
Total uninsured public funds	0	0	0
Collateralized by securities held by a pledging institutions or by its trust department or agent in other than the Authority's name	0	0	0
Uninsured and uncollateralized	\$0	\$0	\$0
Collateral requirement (50% of uninsured funds)	\$0	\$0	\$0
Pledged collateral	0	0	0
Over (under) collateralized	\$0	\$0	\$0

There was no collateral pledged at June 30, 2009. 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 State of New Mexico.

NOTE 4. PROPERTY TAX RECEIVABLE

At June 30, 2009, 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	\$22,209
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STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable – metered water and trash is utility revenue billed but uncollected. The District does not consider the balance at June 30, 2009 to be fully collectible; however, the District has not determined the amount that is considered to be uncollectible.

Stand-by fees receivable is the uncollected balance of stand by fees billed annually. At June 30, 2009, the balance was \$193,052 of which the collection of \$169,325 (the amount over 3 years old) has been determined to be doubtful.

Grants receivable represents amounts expended by the District which have not been reimbursed by the grantor as of June 30, 2009.

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2008	Restatements	Additions	Deletions	Balance June 30, 2009
Capital assets, not depreciated:					
Land	\$514,540	(\$367,033)	\$0	\$0	\$147,507
Construction in process	0	0	231,947	0	231,947
<i>Total capital assets, not depreciated</i>	<u>514,540</u>	<u>(367,033)</u>	<u>231,947</u>	<u>0</u>	<u>379,454</u>
Capital assets, depreciated:					
Infrastructure – water system	0	1,436,790	16,899	0	1,453,689
Buildings and improvements	637,697	0	30,000	0	667,697
Furniture, equipment, and vehicles	1,924,629	(1,247,979)	0	0	676,650
<i>Total capital assets, depreciated</i>	<u>2,562,326</u>	<u>188,811</u>	<u>46,899</u>	<u>0</u>	<u>2,798,036</u>
Accumulated depreciation:					
Infrastructure – water system	0	(14,206)	(59,113)	0	(73,319)
Buildings and improvements	(274,437)	0	(18,506)	0	(292,943)
Furniture, equipment, and vehicles	(961,605)	(11,236)	(27,512)	0	(1,000,353)
<i>Total accumulated depreciation</i>	<u>(1,236,042)</u>	<u>(25,442)</u>	<u>(105,131)</u>	<u>0</u>	<u>(1,366,615)</u>
Net book value	<u>\$1,840,824</u>	<u>(\$203,664)</u>	<u>\$173,715</u>	<u>\$0</u>	<u>\$1,810,875</u>

Depreciation expense for the year amounted to \$105,131.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 fee from the owners who stand to benefit from the line extension but have not connected to the new extension will not have to incur additional extension costs when the decision is made to connect to tile 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, 2009.

	Balance June 30, 2008	Additions	Payments	Balance June 30, 2009
Line extension agreements	\$7,522	\$0	\$0	\$7,522

The District does not consider the entire balance at June 30, 2009 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 II 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, P.O. 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 II NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ended June 30, 2009, 2008 & 2007 were \$4,670, \$478 and \$901, 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).

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009 were \$19,406.

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. RESTATEMENTS OF PRIOR YEAR

During the current year, it was determined that certain amounts recorded in the prior year were incorrect as follows:

Capital Asset Corrections:	
Prior year road repairs incorrectly capitalized	(\$367,033)
Asset additions not recorded -- vendors paid directly by grantor	188,811
Accumulated depreciation -- corrected for above corrects	(25,442)
Accounts payable corrected	10,333
Prior taxes receivable overstated	(196,020)
Stand-by fees receivable corrected	23,727
Total restatements	(\$365,624)

NOTE 11. SUBSEQUENT EVENTS

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 expense 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. Mr. Gideon was paid in full as of August 4, 2011.

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. The settlement was paid in full in April 2010.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 11. SUBSEQUENT EVENTS (CONTINUED)

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. 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 Pendente 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. As of January 18, 2012, the court relieved the receiver and restored management of the District to the Timberon Water and Sanitation District's Board of Directors. The Board is required to periodically report to the court.

On December 27, 2010, the District borrowed \$40,000 from the New Mexico State Board of Finance. The funds were to be used for water system repair and maintenance, road equipment repairs, road materials, salaries, and benefits of water and heavy equipment operations, fuel and vehicle service costs, utilities, and other emergency operational expenses. The loan was interest free. The loan was originally to be repaid in full by June 30, 2012. The District renegotiated the payment terms of the loan which now requires annual payments of \$8,000 beginning December 2013 to continue until paid in full. If the District is successful in achieving an additional rate increase, the State Board of Finance will consider repayment over ten years at \$4,000 per year.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12. COMMITMENTS AND CONTINGENCIES

On July 23, 2010, the District was ordered by the court to pay \$163,591 in statutory damages to a claimant for denial of the request of public records and failure to submit the same for inspection.

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
- Failed 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. The District paid all agreed amounts as of December 1, 2008.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET (NON-GAAP) AND ACTUAL (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	*	*		
	Original Approved Budget	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Water services and fees	\$0	\$0	\$331,326	\$331,326
Trash collection	0	0	27,051	27,051
Recreational fees	0	0	6,884	6,884
Refunds and reimbursements	0	0	2,241	2,241
Rents and royalties	0	0	5,681	5,681
Contributions/donations	0	0	3,000	3,000
Operating grants	0	0	55,000	55,000
Other operating revenues	0	0	1,188	1,188
<i>Total operating revenues</i>	<u>0</u>	<u>0</u>	<u>432,371</u>	<u>432,371</u>
OPERATING EXPENSES				
Administration	0	0	228,440	(228,440)
General maintenance	0	0	64,773	(64,773)
Parks and recreation	0	0	61,677	(61,677)
Road maintenance	0	0	32,213	(32,213)
Water utilities	0	0	331,524	(331,524)
Cemetery	0	0	57	(57)
Golf course	0	0	34,921	(34,921)
Miscellaneous	0	0	56,681	(56,681)
Depreciation	0	0	105,131	(105,131)
Interest and penalties	0	0	5,340	(5,340)
<i>Total operating expenses</i>	<u>0</u>	<u>0</u>	<u>920,757</u>	<u>(565,867)</u>
<i>Operating income (loss)</i>	<u>0</u>	<u>0</u>	<u>(488,386)</u>	<u>(133,496)</u>
NON-OPERATING REVENUE (EXPENSES)				
Property tax, net of county's administrative fees	0	0	132,366	132,366
Interest revenue	0	0	2,820	2,820
<i>Total non-operating revenue (expenses)</i>	<u>0</u>	<u>0</u>	<u>135,186</u>	<u>135,186</u>
<i>Net income (loss) before capital gains</i>	<u>0</u>	<u>0</u>	<u>(353,200)</u>	<u>(353,200)</u>
Capital grants	0	0	467,342	467,342
<i>Change in net assets</i>	<u>0</u>	<u>0</u>	<u>114,142</u>	<u>114,142</u>
Total net assets, beginning of year	0	0	2,413,772	2,413,772
Restatements	0	0	(365,624)	(365,624)
Total net assets, beginning of year as restated	<u>0</u>	<u>0</u>	<u>2,048,148</u>	<u>2,048,148</u>
<i>Total net assets, end of year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$2,162,290</u>	<u>\$2,162,290</u>

* No budget prepared in accordance with DFA requirements.

The Notes to Financial Statements are an integral part of these statements.

OTHER SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS
JUNE 30, 2009

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Value June 30, 2010	Name of Location of Safekeeper
NONE					

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
 SCHEDULE OF DEPOSIT ACCOUNTS
 JUNE 30, 2009

Bank Account Type/Name	First National Bank	Compass	Western Bank	Otero Federal Credit Union	Totals
Checking	\$104,622	\$4,899	\$42,817	\$890	\$153,228
Savings	0	0	53,586	0	53,586
Total on deposit	104,622	4,899	96,403	890	206,814
Reconciling items	0	0	(38,665)	0	(38,665)
Reconciled balance	\$104,622	\$4,899	\$57,738	\$890	168,149
Petty cash					500
					<u>\$168,649</u>

The Notes to Financial Statements are an integral part of these statements.

**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***

Arden Schug, Chairman
Members of the Board of Directors
Timberon Water and 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, 2009, 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, 2009, 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, 2009.

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: 2009-01, 2008-02, 2007-02, 2007-06, 2007-07 and 2007-08.

Arden Schug, Chairman
Members of the Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico
Page Two

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 2009-01, 2007-02, 2007-06, and 2007-08 to be material weaknesses.

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 2009-01, 2009-02, 2008-02, 2007-01, 2007-05, 2007-06, and 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.

Kriegel/Gray/Shaw & Co., P.C.

Kriegel/Gray/Shaw & Co., P.C.

June 26, 2012

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT YEAR SIGNIFICANT DEFICIENCIES:

2009-01 Incomplete and Inaccurate Grant Documentation – Material Weakness

Statement of Condition – Grant reimbursement requests and backup documentation was inconsistent and incomplete.

Criteria – The grantor requires the grantee (the District) to maintain accurate and complete documentation to track grant expenditures.

Cause – Employee turnover, layoffs, and volatile management.

Effect – Recording of grant expenditures may be incomplete. Grant reimbursement requests were significantly delayed. Potential for loss of funding due to late expenditure and/or requests for reimbursement.

Recommendation – The District should establish procedures to account for all grant activity and maintain organized and timely files for each grant including all documentation of each expenditure (invoice and check copy). Reimbursement requests should be done on a regular basis. A schedule for each grant should be maintained showing all expenditures by date reducing the available grant balance until fully expended.

Management's Response – The District concurs with the finding. Steps are being taken to train our office staff better and also cross-train employees to learn each other's job and help each other. All of the financials of Timberon Water and Sanitation District are now entered into Quick Books with much better results. We have hired an accountant to monitor our input into the system and to help with reconciliations.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):

2009-02 Budget Procedures Not Followed – Significant Deficiency

Statement of Condition – The District did not adopt an original budget nor submit a final budget to New Mexico Department of Finance.

Criteria – The District follows the procedures that are promulgated by the Department of Finance and Administration, Local Government Division (DFA LGD) including the budgeting process.

Effect – The District is not in compliance with state requirements, does not have the financial guidance of a budget and lack of budgeting and control may have further complicated an already difficult financial status.

Cause – Frequent change in personnel and financial instability.

Recommendation – The District should prepare a budget for the fiscal year ending June 30, 2013 utilizing bank reconciliation information as of June 30, 2012 as soon as possible. The District should closely monitor its budget to actual and amend the budget as new funding is identified or funding decreases are identified to manage their financial condition more effectively.

Management's Response – The District concurs with the finding. Timberon Water and Sanitation District's budget committee has already submitted a 2012-2013 to the DFA and on time.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS:

2008-01 Overpayment of Mileage Reimbursement

Resolved and not repeated.

2008-02 Procurement – Significant Deficiency

Repeated with modifications.

Statement of Condition – During testwork of State Auditor Compliance, concerning Bids, the District paid for services totaling \$234,426. The District failed to obtain sealed bids for the purchase. In addition, the District received and accepted the bid from an unlicensed contractor.

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.

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.

Cause – The District needed to repair the roads due to flooding for which the work was bid. The bids came in at three times the funding amount provided by FEMA. FEMA subsequently approved the use of contractors paid here in.

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.

Management's Response – The District concurs with this finding. Staff has received additional training in the procurement area. All future procurements will be in accordance with the Water and Sanitation Act and the New Mexico Procurement Code.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2008-03 Lack of Controls for Receipts

Resolved and not repeated.

2007-01 Untimely Audit Report – Significant Deficiency

Repeated.

Statement of Condition – The audit report was submitted on July 6, 2012.

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.

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.

Management's Response – The District concurs with the finding. Timberon Water and Sanitation District is striving really hard to get the upper hand in this process and get their financial house in order. Employees are better trained and working hard to improve the overall operation of the District.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-02 Internal Control Design Operation, Oversight and Segregation of Duties – Material Weakness

Repeated with modification.

Statement of Condition – The District has little or no controls in place to insure 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.

- *Control over reconciliations* – Cash reconciliations is 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. No purchase orders or requisitions are utilized.
- *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 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.
- *Line extension agreements* – The District has not adopted a timely and consistent procedure for reviewing and tracking payments that should be made to customers for line extension agreements.
- *Control over cash receipts* – The clerk who opens the mail also prepares deposits, investigates discrepancies in customer accounts and maintains the cash receipts journal. Receipts issued are not sequentially numbered.

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. Errors may not be detected for an extended period of time.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-02 Internal Control Design Operation, Oversight and Segregation of Duties (Continued)

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 establish, document, and implement policies and procedures over the receipting, disbursing, and recording of transactions, as well as the reconciliation of supporting documentation to the general ledger.

Management's Response – The District concurs with the finding. Timberon Water and Sanitation District acknowledges the problems of not having a lot of controls in place regarding how information is properly identified to support the financial reporting objectives.

Due to massive internal problems including layoffs, cut back of employees and volunteers working in the office-many things were neglected or not being done due to the fact of inexperience. Timberon Water and Sanitation District is in the process of converting all financials to Quicken Books. This step alone has greatly increased the ability for Timberon Water and Sanitation District to solve a lot of problems. The improved training of office staff and cross training of office staff has really helped the situation. Timberon Water and Sanitation District feels good about the progress that has been so far. During our cross training of office staff-staff is going to create a financial management plan which will be reviewed and implemented. Job descriptions will have to be reviewed and modified to fit the job duties.

2007-03 Preparation of Financial Statements and Journal Entries

Not repeated.

2007-04 Control over Information and Communication

Not repeated.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-05 Employee vs. Contract Labor – Significant Deficiency

Repeated with modification.

Statement of Condition – Some of the District's employees are also being paid as independent contractors for certain services. An individual cannot qualify as both an employee and a contractor.

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. In no circumstances would an employee also qualify as an independent contractor.

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 work.

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.

Management's Response – The District concurs with the finding. Additional training is being done and cross training is proceeding with the office staff. All employees now are regular full or part-time Timberon Water and Sanitation District employees.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-06 Capital Assets – Material Weakness

Repeated with modification.

Statement of Condition – The District does not maintain a capital asset inventory and perform a complete physical inventory annually.

Criteria – Section 12-6-10, NMSA 1978 requires each agency to conduct an annual physical inventory at the end of each fiscal year.

Effect – Missing assets may be undetected for an extended period of time. Accounting records may be misstated.

Cause – Turnover in the accounting functions and volatile management.

Recommendation – A complete capital asset listing should be maintained and updated as assets are purchased or deleted during the year. This list should be used to perform an annual physical inventory which is clearly documented and signed off by the individual performing the inspection.

Management's Response – The District concurs with the finding. Timberon Water and Sanitation District will put together a new capital asset list and also do a capital asset inventory as time permits us.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-07 PERA Reporting Contributions – Significant Deficiency

Repeated with modifications.

Statement of Condition – PERA reports and contributions were not prepared and paid timely during the year.

Criteria – The Public Employees Retirement Act (Section 10-11-1 to 10-11-141 NMSA 1978) stipulates the timely reporting and payments of PERA contributions.

Effect – Non compliance with state requirements.

Cause – Volatility of accounting personnel.

Recommendation – We recommend that the District establish written policies and procedures to include all payroll functions so in the event of personnel turnover appropriate and timely procedures continue.

Management's Response – The District concurs with the finding. Timberon Water and Sanitation District will put together written policies and procedures for training purposes.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-08 Failure to Locate Supporting Documents for Disbursements – Material Weakness

Repeated with modifications.

Statement of Condition – During fieldwork, we noted 2 instances out of 40 in which supporting documentation could not be located for transactions. These were check numbers 14944 and 14966. We also noted several instances of missing documentation while auditing grant expenditures.

Criteria – Good accounting practices require that all supporting documentation be maintained and appropriately filed.

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.

Recommendation – We recommend that all disbursements contain proper supporting documentation and be filed in a consistent and systematic fashion. Clear and concise procedures should be documented for the disbursement function to insure consistent application.

Management's Response – The District concurs with the finding. Timberon Water and Sanitation District will begin shortly to update all of their files and get better organized. Our employee situation has stabilized and the employees are better trained than in the past.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
EXIT CONFERENCE
JUNE 30, 2009

EXIT CONFERENCE:

The exit conference was held June 28, 2012 and was attended by the following:

From Timberon Water and Sanitation District:

Arden Schug, Chairman of the Board

Ron Wyatt, General Manager

Linda Martin, Accounting Clerk

From Kriegel/Gray/Shaw & Co., P.C.:

Debbie A. Gray, CPA/Shareholder

Thomas Baker, Auditor

FINANCIAL STATEMENTS PREPARATION

Preparation of financial statements is the responsibility of management. Although, Timberon Water and Sanitation District's personnel provided significant assistance in the preparation; the statements and related footnotes were prepared by Kriegel/Gray/Shaw & Co., P.C.