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STATE OF NEW MEXICO

TIMBERON WATER AND SANITATION DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2012

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
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**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
OFFICIAL ROSTER
JUNE 30, 2012**

Board of Directors

<u>Name</u>	<u>Title</u>
<i>Burt Rubinowitz</i>	<i>Chairman</i>
<i>Joe Mainello</i>	<i>Vice-Chairman</i>
<i>Arden Schug</i>	<i>Treasurer</i>
<i>Mike Bovey</i>	<i>Member</i>
<i>Charlie Ross</i>	<i>Member</i>

Administrative Officials

<i>Ronnie Wyatt</i>	<i>General Manager</i>
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INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico

We have audited the accompanying financial statements of the business-type activities of Timberon Water and Sanitation District, as of and for the year ended June 30, 2012, which collectively comprise Timberon Water and Sanitation District's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons presented as supplementary information for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Timberon Water and Sanitation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards, generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records for the years prior to 2010, we were unable to satisfy ourselves regarding the amounts at which certain capital assets and the related accumulated depreciation are recorded in the accompanying statement of net assets at June 30, 2012 or the amount of the related depreciation expense for the year then ended.

In our opinion, except for the effects described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Timberon Water and Sanitation District, as of June 30, 2012, the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparisons for the business-type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico
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In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2013 on our consideration of the Timberon Water and Sanitation 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 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of a forming opinion on the basic financial statements and the budgetary comparisons presented as supplementary information. The additional schedules listed as "other supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

June 4, 2013

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

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, 2012.

Financial Highlights

Key events for the Fiscal Year 2012 are:

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$1,750,373 (*total net assets*). The components of net assets include invested in capital assets \$1,584,126, and unrestricted net assets \$166,247.
- The District's total net assets decreased by (\$105,479) compared to the prior year. This decrease results primarily from decreased grants and bad debt expense.
- As of June 30, 2012, the District had current and noncurrent assets totaling \$413,589 and \$1,584,126, respectively. Capital assets, net of accumulated depreciation totaled \$1,584,126. Current liabilities include \$10,629 in accounts payable and \$7,207 in payroll liabilities. Noncurrent liabilities included line extension agreements of \$14,324, notes payable of \$40,000, judgement payable of \$163,591, and accrued compensated absences of \$11,591.

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, 2012

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 11-21 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 \$1,750,373 is reported at the close of the most recent fiscal year.

For the years ended June 30, 2012 and 2011, the District reported \$166,247 and \$186,663 of net assets as unrestricted, respectively.

Overview of the Statement of Net Assets

	2012	2011	Variance
Assets:			
Current assets	\$413,589	\$433,554	(\$19,965)
Capital assets, net	1,584,126	1,677,026	(92,900)
Total assets	1,997,715	2,110,580	(112,865)
Liabilities:			
Current liabilities	17,836	30,416	(12,580)
Noncurrent liabilities	229,506	216,475	13,031
Total liabilities	247,342	246,891	451
Net Assets:			
Invested in capital assets	1,584,126	1,677,026	(92,900)
Unrestricted	166,247	186,663	(20,416)
Total net assets	\$1,750,373	\$1,863,689	(\$113,316)

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

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

	2012	2011	Variance
Revenues:			
Water service and fees	\$430,814	\$419,072	\$11,742
Trash collection	42,910	46,348	(3,438)
Recreational fees	6,557	15,227	(8,670)
Refunds and reimbursements	913	1,464	(551)
Rents and royalties	4764	4,137	627
Contributions/ donations	3926	4,442	(516)
Operating grants	22,640	0	22,640
Other operating revenue	4,676	1,586	3,090
Prior year voided checks	6,318	0	6,318
<i>Total revenues</i>	523,518	492,276	31,242
Expenses:			
Administration	94,861	271,023	(176,162)
General maintenance	54,089	72,102	(18,013)
Parks and recreation	25,583	49,795	(24,212)
Road maintenance	21,907	40,473	(18,566)
Water utilities	432,538	375,195	57,343
Cemetery	1,104	990	114
Golf course	43,778	47,070	(3,292)
Miscellaneous	0	0	0
Depreciation	92,728	103,114	(10,386)
Interest and penalties	0	818	(818)
<i>Total expenses</i>	766,588	960,580	(193,992)
<i>Non-operating revenue/(expenses)</i>	137,591	220,579	82,988
<i>Increase (decrease) in net assets</i>	(105,479)	(247,725)	142,246
Net assets – beginning, restated	1,855,852	2,103,577	(247,725)
<i>Net assets – Ending</i>	\$1,750,373	\$1,855,852	(\$105,479)

Financial Analysis of the District's Funds and Fiscal Year 2012 Budgetary Highlights

As noted above, net assets decreased by \$105,479 from fiscal year 2011 to fiscal year 2012. Total revenues increased by \$31,242, mainly due to an increase in operating grants. Total expenses decreased in fiscal year 2012 to \$766,588, a decrease of \$193,992 from the fiscal year 2011 expenses of \$960,580. The major factor in this decrease in spending was the settlement payable in administrative costs resulting from a court ordered judgement in 2011.

There was no budget prepared.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2012 totals \$1,584,126 (net of accumulated depreciation). The only changes in capital assets for the year besides depreciation expense were from the disposal of assets that were substantially depreciated which netted \$172 loss on disposal.

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

Financial Outlook for Next Year

The District continues to seek grant funds to improve its water system through various water system projects which are currently included in construction in process. There was no progress on these projects due to a decrease in capital grant funding. The District implemented a facilities and services charge in the fall of 2012 to fund repairs and maintenance of roads and other infrastructure.

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, 2012

	<u>Business-Type Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$210,567
Inventory	94,062
Accounts receivable - customers - metered water and trash (net of allowance of \$20,204)	10,252
Grants receivable	0
Stand-by fees receivable (net of allowance for doubtful accounts of \$268,105)	59,623
Property taxes receivable	39,085
<i>Total current assets</i>	413,589
Capital Assets:	
Land	147,507
Construction in process	305,473
Infrastructure - water system	1,443,134
Buildings and improvements	666,311
Furniture, equipment, and vehicles	650,550
Accumulated for depreciation	(1,628,849)
<i>Total capital assets, net</i>	1,584,126
Total assets	\$1,997,715
 LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$10,629
Payroll liabilities	7,207
<i>Total current liabilities</i>	17,836
Noncurrent Liabilities:	
Line extension agreements	14,324
Note payable - New Mexico Board of Finance	40,000
Accrued compensated absences	11,591
Judgement payable	163,591
<i>Total noncurrent liabilities</i>	229,506
<i>Total liabilities</i>	247,342
Net Assets:	
Invested in capital assets	1,584,126
Unrestricted	166,247
<i>Total net assets</i>	1,750,373
Total liabilities and net assets	\$1,997,715

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, 2012

	<u>Business-Type Activities</u>
OPERATING REVENUES	
Water services and fees	\$430,814
Trash collection	42,910
Recreational fees	6,557
Refunds and reimbursements	913
Rents and royalties	4,764
Contributions/donations	3,926
Operating grants	22,640
Other operating revenues	4,676
Prior year voided checks	6,318
<i>Total operating revenues</i>	523,518
OPERATING EXPENSES	
Administration	94,861
General maintenance	54,089
Parks and recreation	25,583
Road maintenance	21,907
Water utilities	432,538
Cemetery	1,104
Golf course	43,778
Miscellaneous	0
Depreciation	92,728
Interest and penalties	0
<i>Total operating expenses</i>	766,588
<i>Operating income (loss)</i>	(243,070)
NON-OPERATING REVENUE AND (EXPENSES)	
Property tax, net of county's administrative fees	137,379
Interest revenue	384
Loss on disposal of assets	(172)
<i>Total non-operating revenue and (expenses)</i>	137,591
<i>Income (loss) before capital grants</i>	(105,479)
Capital grants	0
<i>Change in net assets</i>	(105,479)
Total net assets, beginning of year, as previously stated	1,863,689
Restatements	(7,837)
Total net assets, beginning of year, as restated	1,855,852
<i>Total net assets, end of year</i>	\$1,750,373

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, 2012

	<u>Business-Type Activities</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$614,284
Payments to suppliers and contractors	(447,531)
Payments to and benefits provided for employees	(233,715)
<i>Net cash provided by operating activities</i>	<u>(66,962)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net property taxes received	139,161
Notes Payable LTD	0
<i>Net cash provided by noncapital financing activities</i>	<u>139,161</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital grant	0
Purchase of capital assets	0
<i>Net cash used by capital financing activities</i>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	384
Sale of investments	0
<i>Net cash provided by investing activities</i>	<u>384</u>
<i>Net increase in cash and cash equivalents</i>	72,583
Cash and cash equivalents - beginning of year (restated to include petty cash of \$600)	137,984
<i>Cash and cash equivalents - end of year</i>	<u><u>\$210,567</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES	
Operating Income (loss)	(\$243,070)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	92,728
Bad debt expense	(95,477)
Change in assets and liabilities:	
Decrease in accounts receivable	186,243
Increase in inventory	0
Decrease in accounts payable	(6,401)
Decrease in accrued liabilities	(985)
<i>Total adjustments</i>	<u>176,108</u>
<i>Net cash provided (used) by operating activities</i>	<u><u>(\$66,962)</u></u>

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, 2012

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 New Mexico 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, 2012

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, 2012

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, 2012 due to significant volatility in personnel, see repeated 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, 2012

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, 2012

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, 2012.

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 \$250,000 in aggregate and separate from the \$250,000 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, 2012 none of the District's deposits of \$213,115 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. All bank balances were fully insured at June 30, 2012.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE. 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Western Bank	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$28,459	\$36,306	\$64,765
Less FDIC coverage	(28,459)	(36,306)	(64,765)
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	\$145,044	\$0	\$145,044
Less FDIC coverage	(145,044)	0	(145,044)
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, 2012

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Otero Federal Credit Union	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$0	\$3,306	\$3,306
Less FDIC coverage	0	(3,306)	(3,306)
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)			
Pledged collateral	\$0	\$0	\$0
Over (under) collateralized	0	0	0
	\$0	\$0	\$0

There was no collateral pledged at June 30, 2012. 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, 2012, 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	\$39,085
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STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 to be fully collectible. The District has determined \$20,204 to be doubtful.

Stand-by fees receivable is the uncollected balance of stand by fees billed annually. At June 30, 2012, the balance was \$327,728 of which the collection of \$268,105 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, 2012.

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not depreciated:				
Land	\$147,507	\$0	\$0	\$147,507
Construction in process	305,473	0	0	305,473
<i>Total capital assets, not depreciated</i>	<i>452,980</i>	<i>0</i>	<i>0</i>	<i>452,980</i>
Capital assets, depreciated:				
Infrastructure – water system	1,453,689	0	(10,555)	1,443,134
Buildings and improvements	667,697	0	(1,386)	666,311
Furniture, equipment, and vehicles	676,650	0	(26,100)	650,550
<i>Total capital assets, depreciated</i>	<i>2,798,036</i>	<i>0</i>	<i>(38,041)</i>	<i>2,759,995</i>
Accumulated depreciation:				
Infrastructure – water system	(677,976)	(56,824)	10,383	(724,417)
Buildings and improvements	(330,257)	(18,653)	1,386	(347,524)
Furniture, equipment, and vehicles	(565,757)	(17,251)	26,100	(556,908)
<i>Total accumulated depreciation</i>	<i>(1,573,990)</i>	<i>(92,728)</i>	<i>37,869</i>	<i>(1,628,849)</i>
Net book value	\$1,677,026	(\$92,728)	(\$172)	\$1,584,126

Depreciation expense for the year amounted to \$92,728.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7. LONG-TERM DEBT

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.

	Balance June 30, 2011	Additions	Payments	Balance June 30, 2012
Note payable – NM State Board of Finance	\$40,000	\$0	\$0	\$40,000

Amortized as follows:

<u>For the year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$0	\$0	\$0
2014	8,000	0	8,000
2015	8,000	0	8,000
2016	8,000	0	8,000
2017	8,000	0	8,000
2018	8,000	0	8,000
	<u>\$40,000</u>	<u>\$0</u>	<u>\$40,000</u>

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 8. 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 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, 2012.

	Balance June 30, 2011	Additions	Payments	Balance June 30, 2012
Line extension agreements	\$12,884	\$1,440	\$0	\$14,324

The District does not consider the entire balance at June 30, 2012 to be long-term; however, the District has not determined the amount that is considered to be short-term.

NOTE 9. 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, 2012, 2011, and 2010 were \$7,838, \$9,721, and \$11,314, 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 10. RESTATEMENTS

Beginning net assets as of July 1, 2011 was restated for the following:

Correction (increase) of prior year accrued compensated absences	\$7,837
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STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11. 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, 2012 were \$44,374.

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 12. COMMITMENTS AND CONTINGENCIES

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.

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 currently still is required to periodically report to the court.

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. As of June 30, 2012 no payments have been made. The first payment under the settlement was made in February 2013 for \$30,000 with quarterly payments starting on July 1, 2013 of \$12,000.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 4, 2013, which is the date the financial statements were available to be issued.

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, 2012

	*	*		
	Original Approved Budget	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Water services and fees	\$0	\$0	\$430,814	\$430,814
Trash collection	0	0	42,910	42,910
Recreational fees	0	0	6,557	6,557
Refunds and reimbursements	0	0	913	913
Rents and royalties	0	0	4,764	4,764
Contributions/donations	0	0	3,926	3,926
Operating grants	0	0	22,640	22,640
Other operating revenues	0	0	4,504	4,504
Prior year voided checks	0	0	6,318	6,318
<i>Total operating revenues</i>	0	0	523,346	523,346
OPERATING EXPENSES				
Administration	0	0	94,861	(94,861)
General maintenance	0	0	54,089	(54,089)
Parks and recreation	0	0	25,583	(25,583)
Road maintenance	0	0	21,907	(21,907)
Water utilities	0	0	432,538	(432,538)
Cemetery	0	0	1,104	(1,104)
Golf course	0	0	43,778	(43,778)
Miscellaneous	0	0	0	0
Depreciation	0	0	92,728	(92,728)
Interest and penalties	0	0	0	0
<i>Total operating expenses</i>	0	0	766,588	(766,588)
<i>Operating income (loss)</i>	0	0	(243,242)	(243,242)
NON-OPERATING REVENUE (EXPENSES)				
Property tax, net of county's administrative fees	0	0	137,379	137,379
Interest revenue	0	0	384	384
<i>Total non-operating revenue (expenses)</i>	0	0	137,763	137,763
<i>Net income (loss) before capital grants</i>	0	0	(105,479)	(105,479)
Capital grants	0	0	0	0
<i>Change in net assets</i>	\$0	\$0	(\$105,479)	(\$105,479)

* 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, 2012

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Value June 30, 2012	Name of Location of Safekeeper
NONE					

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

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF DEPOSIT ACCOUNTS
JUNE 30, 2012

Bank Account Type/Name	First National Bank	Western Bank	Otero Federal Credit Union	Totals
Checking	\$145,044	\$28,459	\$0	\$173,503
Savings	0	36,306	3,306	39,612
Total on deposit	145,044	64,765	3,306	213,115
Reconciling items	0	(2,542)	(6)	(2,548)
Reconciled balance	\$145,044	\$62,223	\$3,300	\$210,567

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***

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico

We have audited the financial statements of the business-type activities and related budgetary comparisons presented as supplemental information of the Timberon Water and Sanitation District as of and for the year ended June 30, 2012, and have issued our report thereon dated June 4, 2013. The report on the business-type activities was qualified because of the inadequacy of accounting records for the years prior to 2010. We were unable to satisfy ourselves regarding the amounts at which certain capital assets and the related accumulated depreciation are recorded in the accompanying statement of net assets at June 30, 2012 or the amount of the related depreciation expense for the year then ended. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Timberon Water and Sanitation District is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2009-01, 2007-02, and 2007-06.

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico
Page Two

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. 2012-03 and 2010-01.

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 2012-01, 2012-02, 2009-02, and 2007-01.

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 4, 2013

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT YEAR SIGNIFICANT DEFICIENCIES:

2012-01 FICA Tax Calculation Error – Compliance

Statement of Condition – The District uses employee’s gross wages before section 125 health plan deductions to calculate FICA tax. FICA tax was over paid by \$653.

Criteria – Under federal law, Section 125 plan benefits are not subject to FICA tax.

Cause – The District was unaware that employee deductions for medical insurance were part of a Section 125 plan and therefore, were not properly identified in the payroll software to calculate FICA wages and tax.

Effect – The error in calculation causes the amount of FICA withheld from employee wages to be more than federal law requires. The error also caused the District to overpay the employer’s portion of FICA tax due.

Recommendation – The District’s should correct the identification of Section 125 plan deductions in the payroll software and amend affected 941’s and W-2’s. In addition, the District should review all payroll calculations and set up in the software to insure proper identifications and calculations.

Management’s Response – Software will be set up and modified to make sure this does not happen again. Employees will be properly trained on all updates to the software. Necessary adjustments will be made.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):

2012-02 – Overtime Included in PERA Wages – Compliance

Statement of Condition – During test work, we determined that overtime is being included in PERA wages.

Criteria – NMSA 1978 Section 10-11-01 requires overtime to be excluded from qualified PERA wages.

Cause – The District was unaware that the payroll module was including overtime in the PERA calculation.

Effect – The error in calculation causes the employee's PERA contributions to be more than allowed by the retirement plan. The error also caused the District to miscalculate the employer's PERA contribution amount.

Recommendation – The District should amend PERA reports and employee W-2's accordingly as well as refunding excess deductions to employees. Correct the identification of overtime pay in accounting software as non-PERA wages.

Management's Response – TWSD will make all necessary corrections regarding software issues. Staff was unaware that the payroll module was including overtime in the PERA calculation. Adjustments will be made regarding the wrong calculations.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):

2012-03 – Travel and Per diem Requests are Not Approved – Significant Deficiency

Statement of Condition – During test work, we determined (five out of five items sampled) travel and per diem requests approval is not properly documented.

Criteria – District policy, requires the travel and per diem request form to be signed by direct supervisor. The form for travel and per diem includes space for approval.

Cause – Lack of performance in accordance with policy that requires all travel and per diem requests to be approved before payment to employee.

Effect – May lead to potential misappropriation of District assets and fraudulent activity.

Recommendation – We recommend that the District implement internal controls per policy that require all travel and per diem requests to be approved by the manager, via signature on request form, prior to issuing payment.

Management's Response – TWSD management will correct all problems regarding travel and per diem. No requests will be issued until reviewed and approved by manager. More controls will be put in place to avoid any future problems.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT STATUS ON PRIOR YEAR FINDINGS:

2010-01 Swimming Pool Donations and Expenses – Significant Deficiency

Repeated.

Statement of Condition – Donations and expenses for the maintenance of the swimming pool are not being recorded and accounted for by the District.

Criteria – The swimming pool is an asset of the District and therefore any revenues and expenses generated for the use of the pool are considered public funds and therefore should be managed and accounted for by the District.

Cause – Volunteer agreed to assist the District by accepting donations and expending these donations for the pool.

Effect – Public funds are not being managed by the District.

Recommendation – We recommend that all donations get deposited into the District's accounts as received and that expenditures of these funds be budgeted, managed, and accounted for on a contemporaneous basis. The District may want to consider contracting with the volunteer to provide services and implement reporting and documentation procedures for this purpose.

Management's Response – The District agrees with finding. TWSD will consider contracting with the volunteer to provide services and implement reporting all donations and expenses to TWSD. TWSD will keep much better track of all financials regarding the operation of the swimming pool. It is very important for TWSD to manage all of their assets and therefore, all revenues and expenses generated for the use of the pool are considered public funds and should be managed and accounted for by the District. TWSD is striving really hard to bet the upper hand of getting their finances in order. It has been tough; TWSD will accomplish their job regarding the swimming pool operations.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2009-01 Incomplete and Inaccurate Grant Documentation – Material Weakness

Repeated.

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, 2012

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2009-02 Budget Procedures Not Followed – Compliance

Repeated.

Statement of Condition – The District did not adopt an original budget nor submit a final budget to New Mexico Department of Finance in accordance with Department of Finance and Administration, Local Government Division procedures.

Criteria – The District is required to follow 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 submitted a 2012-2013 to the DFA on time.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-01 Untimely Audit Report – Compliance

Repeated with modification.

Statement of Condition – The audit report was submitted on June 11, 2013.

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 – Prior audits were completed late which resulted in the audit for the June 30, 2012 being delayed.

Recommendation – We recommend that the District contract and prepare for its' audit 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, 2012

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 is lacking certain controls 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 are not always 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* – Approval of purchases are not evidenced by documentation nor does District policy require documented approval by the general manager.
- *Control over capital assets* – Changes to the capital assets schedule are not made on a contemporaneous 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.
- *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. Errors may not be detected for an extended period of time.

Cause – The District has had turnover including changes in management.

Recommendation – We recommend the District establish, document, and implement policies and procedures over the disbursing and recording of transactions.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

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

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.

2007-05 Employee vs. Contract Labor – Significant Deficiency

Resolved and not repeated.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-06 Capital Assets – Material Weakness

Repeated with modification.

Statement of Condition – The District had not performed a complete physical inventory on a timely basis nor had they submitted a list of asset disposals to the New Mexico State Auditor for assets deleted.

Criteria – Section 12-6-10, NMSA 1978 requires each agency to conduct an annual physical inventory at the end of each fiscal year. Under the State Auditor Rule 2.2.2.10 V.(1) 30 days prior to disposition of property written notification of the proposed disposition must be submitted to the State Auditor

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. Notification of all future dispositions should be made in accordance with the State Auditor Rule.

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. In addition, a list of all future disposals will be sent to the State Auditor prior to disposition.

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

Resolved and not repeated.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
EXIT CONFERENCE
JUNE 30, 2012

EXIT CONFERENCE:

The exit conference was held June 6, 2013 and was attended by the following:

From Timberon Water and Sanitation District:

Arden Schug, Treasurer
Joe Mainello, Board Member
Ron Wyatt, General Manager

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.