



KRIEGEL/GRAY/SHAW & CO., P.C.

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STATE OF NEW MEXICO

TIMBERON WATER AND SANITATION DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2013

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, 2013

Board of Directors

| <u>Name</u> | <u>Title</u> |
|-----------------------|---------------------|
| <i>Joe Mainello</i> | <i>Chairman</i> |
| <i>Arden Schug</i> | <i>Treasurer</i> |
| <i>Mike Bovey</i> | <i>Member</i> |
| <i>Sally Watkins</i> | <i>Member</i> |
| <i>Richard Dysart</i> | <i>Member</i> |

Administrative Officials

| | |
|---------------------|------------------------|
| <i>Ronnie Wyatt</i> | <i>General Manager</i> |
|---------------------|------------------------|

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

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, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Basis for Qualified 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 position at June 30, 2013 or the amount of the related depreciation expense for the year then ended.

Qualified Opinion

In our opinion, except for the effects described in the "Basis for Qualified Opinion" 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, 2013, 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.

Unmodified Opinion

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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 8 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the District's financial statements and the budgetary comparisons. The other schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico
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The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013 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* in considering the District's internal control over financial reporting and compliance.

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

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

November 25, 2013

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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, 2013.

Financial Highlights

Key events for the Fiscal Year 2013 are:

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$1,833,559 (*total net position*). The components of net position include net investment in capital assets \$1,551,703, and unrestricted net position \$281,856.
- The District's total net position increased by \$96,487 compared to the prior year. This increase results primarily from increased grants and an increase in F & S income.
- As of June 30, 2013, the District had current and noncurrent assets totaling \$574,031 and \$1,551,703, respectively. Capital assets, net of accumulated depreciation totaled \$1,551,703. Current liabilities include \$15,029 in accounts payable, \$759 in payroll liabilities, and \$70,613 in current portion of long-term debt. Noncurrent liabilities included line extension agreements of \$9,880, notes payable of \$32,000, judgement payable of \$147,499, and accrued compensated absences of \$9,559.

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 position;
 - b. Statement of revenues, expenses and changes in fund net position;
 - 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 9 - 11 of this report.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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, 2013

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 12 - 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 position. 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 position may serve over time as a useful indicator of a government's financial position. In the case of the District, a positive net position balance (assets exceeding liabilities) of \$1,833,559 is reported at the close of the most recent fiscal year.

For the years ended June 30, 2013 and 2012, the District reported \$281,856 and \$152,946 of net position as unrestricted, respectively.

Overview of the Statement of Net Position

| | 2013 | 2012 Restated | Variance |
|----------------------------------|--------------------|--------------------|-----------------|
| Assets: | | | |
| Current assets | \$574,031 | \$413,589 | \$160,442 |
| Capital assets, net | 1,551,703 | 1,584,126 | (32,423) |
| Total assets | 2,125,734 | 1,997,715 | 128,019 |
| Liabilities: | | | |
| Current liabilities | 93,237 | 31,137 | 62,100 |
| Noncurrent liabilities | 198,938 | 229,506 | (30,568) |
| Total liabilities | 292,175 | 260,643 | 31,532 |
| Net Position: | | | |
| Net investment in capital assets | 1,551,703 | 1,584,126 | (32,423) |
| Unrestricted | 281,856 | 152,946 | 128,910 |
| Total net position | \$1,833,559 | \$1,737,072 | \$96,487 |

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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

| | 2013 | 2012 Restated | Variance |
|--|--------------------|--------------------------|-----------------|
| Revenues: | | | |
| Water service and fees | \$446,697 | \$430,814 | \$15,883 |
| Trash collection | 45,110 | 42,910 | 2,200 |
| Recreational fees | 4,428 | 6,557 | (2,129) |
| Cemetery lot sales | 4,600 | 0 | 4,600 |
| Facilities and services fees | 159,548 | 0 | 159,548 |
| Refunds and reimbursements | 0 | 913 | (913) |
| Rents and royalties | 4,840 | 4,764 | 76 |
| Contributions/donations | 2,197 | 3,926 | (1,729) |
| Operating grants | 0 | 22,640 | (22,640) |
| Other operating revenue | 9,452 | 4,676 | 4,776 |
| Prior year voided checks | 0 | 6,318 | (6,318) |
| <i>Total revenues</i> | 676,872 | 523,518 | 153,354 |
| Expenses: | | | |
| Administration | 119,530 | 94,861 | 24,669 |
| General maintenance | 75,823 | 54,089 | 21,734 |
| Parks and recreation | 42,490 | 25,583 | 16,907 |
| Road maintenance | 16,981 | 21,907 | (4,926) |
| Water utilities | 378,960 | 445,839 | (66,879) |
| Cemetery | 780 | 1,104 | (324) |
| Golf course | 40,506 | 43,778 | (3,272) |
| Miscellaneous | 0 | 0 | 0 |
| Depreciation | 92,335 | 92,728 | (393) |
| Interest and penalties | 46,521 | 0 | 46,521 |
| <i>Total expenses</i> | 813,926 | 779,889 | 34,037 |
| <i>Non-operating revenue/(expenses)</i> | 233,541 | 137,591 | 95,950 |
| <i>Increase (decrease) in net position</i> | 96,487 | (118,780) | 215,267 |
| Net position – beginning, restated | 1,737,072 | 1,855,852 | (118,780) |
| <i>Net position – Ending</i> | \$1,833,559 | \$1,737,072 | \$96,487 |

Financial Analysis of the District's Funds and Fiscal Year 2013 Budgetary Highlights

As noted above, net position increased by \$96,487 from fiscal year 2012 to fiscal year 2013. Total revenues increased by \$153,354, mainly due to an increase in operating grants and an increase in F & S revenue. Total expenses increased in fiscal year 2013 to \$813,926, an increase of \$34,037 from the fiscal year 2012 expenses of \$779,889. The major factor in this increase in spending was (the accrued interest in) the settlement payable in administrative costs resulting from a court ordered judgement in 2010.

There was no budget prepared.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2013 totals \$1,551,703 (net of accumulated depreciation). The changes in capital assets for the year besides depreciation expense were from the sale of assets that were fully depreciated which netted \$1,350 gain on disposal and \$59,912 of additions to CIP.

Additional information on the District's capital assets can be found on page 19 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 little progress on these projects due to a decrease in capital grant funding. The District implemented a facilities and services charge in the fall of 2013 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 POSITION
JUNE 30, 2013

| | <u>Business-Type Activities</u> |
|--|-------------------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$292,117 |
| Inventory | 90,761 |
| Accounts receivable - customers - metered water and trash (net of allowance of \$29,437) | 7,093 |
| Grants receivable | 15,368 |
| Stand-by fees receivable (net of allowance for doubtful accounts of \$264,656) | 99,552 |
| Facilities and services fees receivable (net of allowance for doubtful accounts of \$64,500) | 24,270 |
| Property taxes receivable | 41,611 |
| Prepaid expenses | 3,259 |
| <i>Total current assets</i> | 574,031 |
| Capital Assets: | |
| Land | 147,507 |
| Construction in process | 365,385 |
| Infrastructure - water system | 1,443,134 |
| Buildings and improvements | 666,311 |
| Furniture, equipment, and vehicles | 640,500 |
| Accumulated for depreciation | (1,711,134) |
| <i>Total capital assets, net</i> | 1,551,703 |
| Total assets | \$2,125,734 |
| LIABILITIES AND NET POSITION | |
| Current Liabilities: | |
| Accounts payable | \$15,029 |
| Payroll liabilities | 7,595 |
| Current portion of long-term debt | 70,613 |
| <i>Total current liabilities</i> | 93,237 |
| Noncurrent Liabilities: | |
| Line extension agreements | 9,880 |
| Note payable - New Mexico Board of Finance | 32,000 |
| Accrued compensated absences | 9,559 |
| Judgement payable | 147,499 |
| <i>Total noncurrent liabilities</i> | 198,938 |
| <i>Total liabilities</i> | 292,175 |
| Net Position: | |
| Net investment in capital assets | 1,551,703 |
| Unrestricted | 281,856 |
| <i>Total net position</i> | 1,833,559 |
| Total liabilities and net position | \$2,125,734 |

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 POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Business-Type Activities |
|---|-------------------------------------|
| OPERATING REVENUES | |
| Water services and fees | \$446,697 |
| Trash collection | 45,110 |
| Recreational fees | 4,428 |
| Cemetery lot sales | 4,600 |
| Facilities and services fees | 159,548 |
| Rents and royalties | 4,840 |
| Contributions/donations | 2,197 |
| Operating grants | 0 |
| Other operating revenues | 9,452 |
| <i>Total operating revenues</i> | 676,872 |
| OPERATING EXPENSES | |
| Administration | 119,530 |
| General maintenance | 75,823 |
| Parks and recreation | 42,490 |
| Road maintenance | 16,981 |
| Water utilities | 378,960 |
| Cemetery | 780 |
| Golf course | 40,506 |
| Depreciation | 92,335 |
| Interest and penalties | 46,521 |
| <i>Total operating expenses</i> | 813,926 |
| <i>Operating income (loss)</i> | (137,054) |
| NON-OPERATING REVENUE AND (EXPENSES) | |
| Property tax, net of county's administrative fees | 143,416 |
| Interest revenue | 630 |
| Loss on disposal of assets | 1,350 |
| <i>Total non-operating revenue and (expenses)</i> | 145,396 |
| <i>Income (loss) before capital grants</i> | 8,342 |
| Capital grants | 88,145 |
| <i>Change in net position</i> | 96,487 |
| Total net position, beginning of year, as previously stated | 1,750,373 |
| Restatements | (13,301) |
| <i>Total net position, beginning of year, as restated</i> | 1,737,072 |
| <i>Total net position, end of year</i> | <i>\$1,833,559</i> |

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, 2013

| | <u>Business-Type Activities</u> |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$574,263 |
| Payments to suppliers and contractors | (482,957) |
| Payments to and benefits provided for employees | (199,102) |
| <i>Net cash provided by operating activities</i> | <u>(107,796)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Net property taxes received | 167,133 |
| Notes Payable LTD | (8,000) |
| <i>Net cash provided by noncapital financing activities</i> | <u>159,133</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Capital grant | 88,145 |
| Purchase of capital assets | (59,912) |
| Sale of capital assets | 1,350 |
| <i>Net cash used by capital financing activities</i> | <u>29,583</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest income | 630 |
| Sale of investments | 0 |
| <i>Net cash provided by investing activities</i> | <u>630</u> |
| <i>Net increase in cash and cash equivalents</i> | 81,550 |
| Cash and cash equivalents - beginning of year (restated to include petty cash of \$600) | 210,567 |
| <i>Cash and cash equivalents - end of year</i> | <u>\$292,117</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES | |
| Operating Income (loss) | (\$137,054) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation expense | 92,335 |
| Bad debt expense | 0 |
| Change in assets and liabilities: | |
| Increase in accounts receivable | (102,651) |
| Decrease in inventory | 3,301 |
| Increase in prepaid expenses | (3,259) |
| Decrease in accounts payable | (13,345) |
| Increase in accrued liabilities | 68,969 |
| Increase in judgment payable | (16,092) |
| <i>Total adjustments</i> | <u>29,258</u> |
| <i>Net cash provided (used) by operating activities</i> | <u>(\$107,796)</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, 2013

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.

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, 2013

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 even 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 position, the statement of revenues, expenses and changes in net position 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 position (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 position. When an expense is incurred for purposes for which both restricted and unrestricted net position is 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. All assets, all liabilities and deferred outflows and inflows of resources associated with the operations are included on the statement of net position. 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, 2013

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, 2013 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, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Net Position 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, 2013

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 position. Long-term obligations consist of line extension agreements.

Compensated Absences: Vested or accumulated vacation leave is reflected as a liability of the District. Annual leave is earned according to the following schedule:

| | |
|--------------------|----------------|
| 0-2 year employee | 40 hours/year |
| 3-10 year employee | 80 hours/year |
| + 10 year employee | 120 hours/year |

Net Position Classifications: Net investment in capital assets 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 position is 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 position are all other net position that do not meet the definition of "restricted" or net investment in capital assets.

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.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013.

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, 2013 none of the District's deposits of \$309,070 were exposed to custodial credit risk. \$55,763 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.

| First National Bank | Demand Deposit Balance | Time Deposit Balance | Total |
|---|------------------------------|----------------------------|-------------|
| Total amount on deposit in bank | \$305,763 | \$0 | \$305,763 |
| Less FDIC coverage | (250,000) | 0 | (250,000) |
| Total uninsured public funds | 55,763 | 0 | 55,763 |
| Collateralized by securities held by a pledging institutions or by its trust department or agent in other than the Authority's name | 1,223,596 | 0 | 1,223,596 |
| Uninsured and uncollateralized | \$0 | \$0 | \$0 |
| Collateral requirement (50% of uninsured funds) | \$27,882 | \$0 | \$27,882 |
| Pledged collateral | 1,223,596 | 0 | 1,223,596 |
| Over (under) collateralized | \$1,195,714 | \$0 | \$1,195,714 |

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE. 3. DEPOSITS AND INVESTMENTS (CONTINUED)

| Otero Federal Credit Union | Demand Balance | Savings Balance | Total |
|---|-------------------|--------------------|---------|
| Total amount on deposit in bank | \$0 | \$3,307 | \$3,307 |
| Less FDIC coverage | 0 | (3,307) | (3,307) |
| 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 |

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, 2013, 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 | \$41,611 |
|---------------------------|----------|

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, 2013 to be fully collectible. The District has determined \$29,437 to be doubtful.

Stand-by fees receivable is the uncollected balance of stand by fees billed annually. At June 30, 2013, the balance was \$364,208 of which the collection of \$264,656 has been determined to be doubtful.

The District implemented a new fee to all lot owners for the maintenance of the communities facilities and services provided. The fee is billed annually at \$30 per lot owner. Facilities and services fees receivable at June 30, 2013 were \$88,770 of which the collection of \$64,500 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, 2013.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

| | Balance June 30, 2012 | Additions | Deletions | Balance June 30, 2013 |
|--|--------------------------|-------------------|-----------------|--------------------------|
| Capital assets, not depreciated: | | | | |
| Land | \$147,507 | \$0 | \$0 | \$147,507 |
| Construction in process | 305,473 | 59,912 | 0 | 365,385 |
| <i>Total capital assets, not depreciated</i> | <u>452,980</u> | <u>59,912</u> | <u>0</u> | <u>512,892</u> |
| Capital assets, depreciated: | | | | |
| Infrastructure – water system | 1,443,134 | 0 | 0 | 1,443,134 |
| Buildings and improvements | 666,311 | 0 | 0 | 666,311 |
| Furniture, equipment, and vehicles | 650,550 | 0 | (10,050) | 640,500 |
| <i>Total capital assets, depreciated</i> | <u>2,759,995</u> | <u>0</u> | <u>(10,050)</u> | <u>2,749,945</u> |
| Accumulated depreciation: | | | | |
| Infrastructure – water system | (724,417) | (56,791) | 0 | (781,208) |
| Buildings and improvements | (347,524) | (18,624) | 0 | (366,148) |
| Furniture, equipment, and vehicles | (556,908) | (16,920) | 10,050 | (563,778) |
| <i>Total accumulated depreciation</i> | <u>(1,628,849)</u> | <u>(92,335)</u> | <u>10,050</u> | <u>(1,711,134)</u> |
| Net book value | <u>\$1,584,126</u> | <u>(\$32,423)</u> | <u>\$0</u> | <u>\$1,551,703</u> |

Depreciation expense for the year amounted to \$92,335.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013. 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, 2012 | Additions | Payments | Balance June 30, 2013 | Due Within One Year |
|--|-----------------------------|-----------------|----------------|-----------------------------|------------------------|
| Note payable – NM State Board of Finance | \$40,000 | \$0 | \$0 | \$40,000 | \$8,000 |
| Judgment payable | 163,592 | 46,521 | 0 | 210,112 | 62,613 |
| Accrued compensated absences | 11,591 | 564 | 2,596 | 9,559 | 0 |
| | <u>\$215,183</u> | <u>\$47,085</u> | <u>\$2,596</u> | <u>\$259,671</u> | <u>\$70,613</u> |

Amortized as follows:

| <u>For the year ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|------------------|-----------------|-----------------|
| 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> |

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. During the year, it was determined that the judgment was to accrue interest at 8.750% from the effective date of judgment (March 31, 2010). The capitalized interest from the date of judgment of \$46,521 has been added to principal for a balance of \$210,112 at June 30, 2013. As of June 30, 2013 no payments have been made. The first payment under the settlement is to be made September 30, 2013 for \$42,000 with quarterly payments starting on December 31, 2013 of \$12,000.

Amortized as follows:

| <u>For the year ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|------------------|-----------------|------------------|
| 2014 | \$62,612 | \$15,388 | \$78,000 |
| 2015 | 36,262 | 11,738 | 48,000 |
| 2016 | 39,541 | 8,459 | 48,000 |
| 2017 | 43,116 | 4,884 | 48,000 |
| 2018 | 28,581 | 1,124 | 29,705 |
| | <u>\$210,112</u> | <u>\$41,593</u> | <u>\$251,705</u> |

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013.

| | Balance June 30, 2012 | Additions | Payments | Balance June 30, 2013 |
|---------------------------|--------------------------|-----------|----------|--------------------------|
| Line extension agreements | \$14,324 | \$0 | \$4,444 | \$9,880 |

The District does not consider the entire balance at June 30, 2013 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, 2013, 2012, and 2011 were \$5,253, \$7,838, and \$9,721, 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 position as of July 1, 2012 was restated for the following:

| | |
|--|-------------------|
| Correction of prior year line extension agreements | (\$368) |
| Correction (increase) of prior year accounts payable - utilities | (12,933) |
| | <u>(\$13,301)</u> |

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 expense on the policies for the year ended June 30, 2013 was \$40,982.

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. SUBSEQUENT EVENTS

Subsequent events were evaluated through November 25, 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 POSITION
BUDGET (NON-GAAP) AND ACTUAL (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | * | * | | |
|---|--------------------------------|-------------------|---------------------------------|--|
| | Original Approved Budget | Revised Budget | Actual on Budgetary Basis | Variance Favorable (Unfavorable) |
| OPERATING REVENUES | | | | |
| Water services and fees | \$0 | \$0 | \$446,697 | \$446,697 |
| Trash collection | 0 | 0 | 45,110 | 45,110 |
| Recreational fees | 0 | 0 | 4,428 | 4,428 |
| Cemetery lot sales | 0 | 0 | 4,600 | 4,600 |
| Facilities and services fees | 0 | 0 | 159,548 | 159,548 |
| Rents and royalties | 0 | 0 | 4,840 | 4,840 |
| Contributions/donations | 0 | 0 | 2,197 | 2,197 |
| Operating grants | 0 | 0 | 0 | 0 |
| Other operating revenues | 0 | 0 | 10,800 | 10,800 |
| <i>Total operating revenues</i> | 0 | 0 | 678,220 | 678,220 |
| OPERATING EXPENSES | | | | |
| Administration | 0 | 0 | 119,530 | 119,530 |
| General maintenance | 0 | 0 | 75,823 | 75,823 |
| Parks and recreation | 0 | 0 | 42,490 | 42,490 |
| Road maintenance | 0 | 0 | 16,981 | 16,981 |
| Water utilities | 0 | 0 | 378,960 | 378,960 |
| Cemetery | 0 | 0 | 780 | 780 |
| Golf course | 0 | 0 | 40,506 | 40,506 |
| Miscellaneous | 0 | 0 | 0 | 0 |
| Depreciation | 0 | 0 | 92,335 | 92,335 |
| Interest and penalties | 0 | 0 | 46,521 | 46,521 |
| <i>Total operating expenses</i> | 0 | 0 | 813,926 | 813,926 |
| <i>Operating income (loss)</i> | 0 | 0 | (135,706) | (135,706) |
| NON-OPERATING REVENUE (EXPENSES) | | | | |
| Property tax, net of county's administrative fees | 0 | 0 | 143,416 | 143,416 |
| Interest revenue | 0 | 0 | 630 | 630 |
| <i>Total non-operating revenue (expenses)</i> | 0 | 0 | 144,046 | 144,046 |
| <i>Net income (loss) before capital grants</i> | 0 | 0 | 8,340 | 8,340 |
| Capital grants | 0 | 0 | 88,145 | 88,145 |
| <i>Change in net position</i> | \$0 | \$0 | \$96,485 | \$96,485 |

* 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, 2013

| <u>Name of Depository</u> | <u>Description of Pledged Collateral</u> | <u>Maturity</u> | <u>CUSIP Number</u> | <u>Fair Value June 30, 2013</u> | <u>Name of Location of Safekeeper</u> |
|---------------------------|--|-----------------|-------------------------|-------------------------------------|---------------------------------------|
| First National Bank | FNMA Pool #AJ1441 | 9/1/2026 | 3138ASS78 | \$1,223,596 | Federal Home Loan Bank |

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, 2013

| Bank Account Type/Name | First National Bank | Otero Federal Credit Union | Totals |
|------------------------|---------------------|-------------------------------|-----------|
| Checking | \$189,832 | \$0 | \$189,832 |
| Savings | 115,931 | 3,307 | 119,238 |
| Total on deposit | 305,763 | 3,307 | 309,070 |
| Reconciling items | (16,953) | 0 | (16,953) |
| Reconciled balance | \$288,810 | \$3,307 | \$292,117 |

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***

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Timberon Water and Sanitation District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and related budgetary comparisons of the District, presented as supplemental information, and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Timberon Water and Sanitation District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Timberon Water and Sanitation District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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. 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 accompanying 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 Timberon Water and Sanitation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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, and 2009-02.

Timberon Water and Sanitation District's Response to Findings

Timberon Water and Sanitation District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Timberon Water and Sanitation District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Kriegel/Gray/Shaw & Co., P.C.
Las Cruces, New Mexico
November 25, 2013

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CURRENT YEAR SIGNIFICANT DEFICIENCIES:

None.

CURRENT STATUS ON PRIOR YEAR FINDINGS:

2012-01 FICA Tax Calculation Error – Non Compliance

Repeated with modification.

Statement of Condition – The District used employee’s gross wages before section 125 health plan deductions to calculate FICA tax. FICA tax was over paid by \$1,118. Corrected after indentified during prior year audit.

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 – All Section 125 plan deductions have been amended affecting 941’s and W-2’s. Payroll calculations are now kept up to date and checked periodically.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2012-02 – Overtime Included in PERA Wages – Non Compliance

Repeated with modifications.

Statement of Condition – During test work, we determined that overtime is being included in PERA wages and PERA contribution withholding rate was inconsistent between regular wages and paid time off. Corrected after identified during prior year audit.

Criteria – NMSA 1978 Section 10-11-01 requires overtime to be excluded from qualified PERA wages. District is required to contribute withholding for paid time off at same rate as regular wages.

Cause – The District was unaware that the payroll module was including overtime in the PERA calculation. There was an error in QuickBooks for paid time off rate miscalculation.

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 – All PERA reports and W2's have been amended; software does not allow correct PERA calculations so this is done manually when overtime occurs.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

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

Repeated with modifications.

Statement of Condition – During test work, we determined (two out of five) travel and per diem request approvals are not properly documented and requested in a timely manner in order for the transaction to be recorded in the period in which the travel occurred.

Criteria – Good internal controls require adherence to policies and procedures. District policy requires the travel and per diem request form to be signed by the direct supervisor. The form for travel and per diem includes space for approval. District Manager must have travel request approved by a board member. Employee request for delay of reimbursement must still be accounted for in proper year of occurrence.

Cause – Lack of attention to procedure details and documentation.

Effect – May lead to potential misappropriation of District assets and fraudulent activity.
Travel expenses wrong, recorded in the wrong period.

Recommendation – We recommend that the District strictly follow their policy and procedures that require all travel and per diem requests to be approved by the manager, via signature on request form, prior to issuing payment. Also, travel and per diem must be properly expensed in year of occurrence.

Management's Response – TWSD management have corrected travel and per diem payment issues and procedures by having General Manager review and sign all approved requests.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

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 – TWSD will be operating the swimming pool beginning the summer of 2014 and keep complete records of all transactions.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2009-01 Incomplete and Inaccurate Grant Documentation – Material Weakness

Resolved and not repeated.

2009-02 Budget Procedures Not Followed – Non 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, 2013 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 – TWSD is closely monitoring and amending their budget as needed. A budget for 2013/14 was submitted and approved by the DFA in a timely manner.

2007-01 Untimely Audit Report – Non Compliance

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, 2013

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

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

Repeated with modifications.

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* – Segregation of duties. Entering of journal entries and general ledger reconciliation are performed by the same individual. 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.
- *Consumable Inventory* – No policy or procedures establishing inventory accountability and periodic count procedures.

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 all accounting processes.

Management's Response – TWSD has implemented a Policy and Procedures manual with updated job descriptions that will remedy these findings.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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.

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 – TWSD will implement physical annual inventories including capital assets, with signatures of the individuals who will methodically compile and update as to condition, value and working order of all assets.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
EXIT CONFERENCE
JUNE 30, 2013

EXIT CONFERENCE:

The exit conference was held November 27, 2013 and was attended by the following:

From Timberon Water and Sanitation District:

Joe Mainello, Vice Chairman
Sally Watkins, Director
Ronnie Wyatt, General Manager
DeAnna McCall, 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.