



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, 2014

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, 2014

Board of Directors

<u>Name</u>	<u>Title</u>
<i>Joe Mainello</i>	<i>Chairman</i>
<i>Sally Watkins</i>	<i>Vice-Chairman</i>
<i>Mike Bovey</i>	<i>Treasurer</i>
<i>Marilyn Hatfield</i>	<i>Director</i>
<i>Peter Jankiewicz</i>	<i>Director</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

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, 2014, 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, 2014, 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
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Timberon Water and Sanitation District, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance 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 year then ended in accordance 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.

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.

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014 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.
Las Cruces, New Mexico
November 26, 2014

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014.

Financial Highlights

Key events for the Fiscal Year 2014 are:

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$1,911,128 (*total net position*). The components of net position include net investment in capital assets \$1,642,888, restricted \$242,729, and unrestricted net position \$25,512.
- The District's total net position increased by \$77,569 compared to the prior year. This increase results primarily from increased grants and an increase in F & S income.
- As of June 30, 2014, the District had current and noncurrent assets totaling \$892,510 and \$1,642,887, respectively. Capital assets, net of accumulated depreciation totaled \$1,642,887. Current liabilities include \$34,412 in accounts payable, \$8,397 in payroll liabilities, and \$38,531 in current portion of long-term debt. Noncurrent liabilities included line extension agreements of \$9,611, notes payable of \$408,678, judgment payable of \$111,237, and accrued compensated absences of \$13,404.

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, 2014

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 \$1,911,128 is reported at the close of the most recent fiscal year.

For the years ended June 30, 2014 and 2013, the District reported \$25,512 and \$281,856 of net position as unrestricted, respectively.

Overview of the Statement of Net Position

	2014	2013	Variance
Assets:			
Current assets	\$892,510	\$574,031	\$318,479
Capital assets, net	1,642,888	1,551,703	91,185
Total assets	2,535,398	2,125,734	409,664
Liabilities:			
Current liabilities	81,340	93,237	(11,897)
Noncurrent liabilities	542,930	198,938	343,992
Total liabilities	624,270	292,175	332,095
Net Position:			
Net investment in capital assets	1,642,887	1,551,703	91,184
Restricted	242,729	0	242,729
Unrestricted	25,512	281,856	(256,344)
Total net position	\$1,911,128	\$1,833,559	\$77,569

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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

	2014	2013	Variance
Revenues:			
Water service and fees	\$441,829	\$446,697	(\$4,868)
Trash collection	43,700	45,110	(1,410)
Recreational fees	4,865	4,428	437
Cemetery lot sales	400	4,600	(4,200)
Facilities and services fees	279,995	159,548	120,447
Rents and royalties	3,201	4,840	(1,639)
Contributions/donations	3,815	2,197	1,618
Operating grants	38,296	0	38,296
Other operating revenue	1,972	9,452	(7,480)
<i>Total revenues</i>	818,073	676,872	141,201
Expenses:			
Administration	64,782	119,530	(54,748)
General maintenance	117,046	75,823	41,223
Parks and recreation	48,336	42,490	5,846
Road maintenance	37,350	16,981	20,369
Water utilities	460,970	378,960	82,010
Cemetery	625	780	(155)
Golf course	51,050	40,506	10,544
Depreciation	90,556	92,335	(1,779)
Interest and penalties	18,613	46,521	(27,908)
<i>Total expenses</i>	889,328	813,926	75,402
<i>Non-operating revenue/(expenses)</i>	148,824	233,541	(84,717)
<i>Increase (decrease) in net position</i>	77,569	96,487	(18,918)
Net position – beginning, restated	1,833,559	1,737,072	96,487
<i>Net position – Ending</i>	\$1,911,128	\$1,833,559	\$77,569

Financial Analysis of the District's Funds and Fiscal Year 2014 Budgetary Highlights

As noted above, net position increased by \$77,569 from fiscal year 2013 to fiscal year 2014. Total revenues increased by \$141,201, mainly due to an increase in operating grants and an increase in F & S revenue. Total expenses increased in fiscal year 2014 to \$889,328, an increase of \$75,402 from the fiscal year 2013 expenses of \$813,926. The major factor in this increase in spending was for repair and maintenance to the water system and general maintenance during fiscal year 2014.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2014 totals \$1,642,887 (net of accumulated depreciation). The changes in capital assets for the year besides depreciation expense were from the purchase of three assets totaling \$23,695 and \$158,046 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 2014 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, 2014

**Business-Type
Activities**

ASSETS	Business-Type Activities
Current Assets:	
Cash and cash equivalents	\$216,296
Inventory	101,261
Accounts receivable - customers - metered water and trash (net of allowance of \$28,320)	5,853
Grants receivable	0
Stand-by fees receivable (net of allowance for doubtful accounts of \$247,608)	162,339
Facilities and services fees receivable (net of allowance for doubtful accounts of \$25,410)	133,205
Property taxes receivable	30,827
Prepaid expenses	0
Restricted assets:	
Cash held with trustee	242,729
<i>Total current assets</i>	<i>892,510</i>
Capital Assets:	
Land	147,507
Construction in process	523,431
Infrastructure - water system	1,443,134
Buildings and improvements	666,311
Furniture, equipment, and vehicles	664,195
Accumulated for depreciation	(1,801,690)
<i>Total capital assets, net</i>	<i>1,642,888</i>
Total assets	\$2,535,398
 LIABILITIES AND NET POSITION	
Current Liabilities:	
Accounts payable	\$34,412
Payroll liabilities	8,397
Current portion of long-term debt	38,531
<i>Total current liabilities</i>	<i>81,340</i>
Noncurrent Liabilities:	
Line extension agreements	9,611
Note payable - New Mexico Board of Finance	24,000
Accrued compensated absences	13,404
Judgement payable	111,237
Note payable - NMFA	54,739
Note payable - RCAC	329,939
<i>Total noncurrent liabilities</i>	<i>542,930</i>
<i>Total liabilities</i>	<i>624,270</i>
Net Position:	
Net investment in capital assets	1,642,887
Restricted - construction project	169,789
Restricted - debt service	72,940
Unrestricted	25,512
<i>Total net position</i>	<i>1,911,128</i>
Total liabilities and net position	\$2,535,398

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, 2014

	Business-Type Activities
OPERATING REVENUES	
Water services and fees	\$441,829
Trash collection	43,700
Recreational fees	4,865
Cemetery lot sales	400
Facilities and services fees	279,995
Rents and royalties	3,201
Contributions/donations	3,815
Operating grants	38,296
Other operating revenues	1,972
<i>Total operating revenues</i>	818,073
OPERATING EXPENSES	
Administration	64,782
General maintenance	117,046
Parks and recreation	48,336
Road maintenance	37,350
Water utilities	460,970
Cemetery	625
Golf course	51,050
Depreciation	90,556
Interest and penalties	18,613
<i>Total operating expenses</i>	889,328
<i>Operating income (loss)</i>	(71,255)
NON-OPERATING REVENUE AND (EXPENSES)	
Property tax, net of county's administrative fees	140,134
Interest revenue	648
Gain on disposal of assets	0
<i>Total non-operating revenue and (expenses)</i>	140,782
<i>Income (loss) before capital grants</i>	69,527
Capital grants	8,042
<i>Change in net position</i>	77,569
Total net position, beginning of year, as previously stated	1,833,559
<i>Total net position, end of year</i>	1,911,128

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, 2014**

**Business-Type
Activities**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$647,591
Payments to suppliers and contractors	(361,651)
Payments to and benefits provided for employees	(420,601)
<i>Net cash provided by operating activities</i>	<u>(134,661)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net property taxes received	150,918
Principal payments - operating loans	(79,386)
<i>Net cash provided by noncapital financing activities</i>	<u>71,532</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital grant	23,410
Principal payments	(651)
Loan proceeds	388,371
Purchase of capital assets	(181,741)
Sale of capital assets	0
<i>Net cash used by capital financing activities</i>	<u>229,389</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	648
Sale of investments	0
<i>Net cash provided by investing activities</i>	<u>648</u>
<i>Net increase in cash and cash equivalents</i>	166,908
Cash and cash equivalents - beginning of year	292,117
<i>Cash and cash equivalents - end of year</i>	<u>\$459,025</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES	
Operating Income (loss)	(\$71,255)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	90,557
Bad debt expense	0
Change in assets and liabilities:	
Increase in accounts receivable	(170,482)
Increase in inventory	(10,500)
Increase in prepaid expenses	3,259
Decrease in accounts payable	19,113
Increase in accrued liabilities	4,647
<i>Total adjustments</i>	<u>(63,406)</u>
<i>Net cash provided (used) by operating activities</i>	<u>(\$134,661)</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, 2014

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.

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, 2014

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, 2014

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 different than accounting principles generally accepted in the United States of America.

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, 2014

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, 2014

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, 2014

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, 2014.

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, 2014 none of the District's deposits of \$235,679 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.

	Demand Deposit Balance	Time Deposit Balance	Total
First National Bank			
Total amount on deposit in bank	\$232,366	\$0	\$232,366
Less FDIC coverage	(232,366)	0	(232,366)
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	1,004,801	0	1,004,801
Uninsured and uncollateralized	\$0	\$0	\$0
Collateral requirement (50% of uninsured funds)	\$0	\$0	\$0
Pledged collateral	1,004,801	0	1,004,801
Over (under) collateralized	\$1,004,801	\$0	\$1,004,801

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Otero Federal Credit Union	Demand Balance	Savings Balance	Total
Total amount on deposit in bank	\$0	\$3,313	\$3,313
Less FDIC coverage	0	(3,313)	(3,313)
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, 2014, 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	\$30,827
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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, 2014 to be fully collectible. The District has determined \$28,320 to be doubtful.

Stand-by fees receivable is the uncollected balance of stand by fees billed annually. At June 30, 2014, the balance was \$409,947 of which the collection of \$247,608 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, 2014 were \$158,615 of which the collection of \$25,410 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, 2014.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not depreciated:				
Land	\$147,507	\$0	\$0	\$147,507
Construction in process	365,385	158,046	0	523,431
<i>Total capital assets, not depreciated</i>	<u>512,892</u>	<u>158,046</u>	<u>0</u>	<u>670,938</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	640,500	23,695	0	664,195
<i>Total capital assets, depreciated</i>	<u>2,749,945</u>	<u>23,695</u>	<u>0</u>	<u>2,773,640</u>
Accumulated depreciation:				
Infrastructure – water system	(781,208)	(56,055)	0	(837,263)
Buildings and improvements	(366,148)	(18,624)	0	(384,772)
Furniture, equipment, and vehicles	(563,778)	(15,877)	0	(579,655)
<i>Total accumulated depreciation</i>	<u>(1,711,134)</u>	<u>(90,556)</u>	<u>0</u>	<u>(1,801,690)</u>
Net book value	<u>\$1,551,703</u>	<u>\$91,185</u>	<u>\$0</u>	<u>\$1,642,888</u>

Depreciation expense for the year amounted to \$90,556.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7. LONG-TERM DEBT

The following summarizes the changes in long-term debt:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Due Within One Year
Note payable – NM State Board of Finance	\$40,000	\$0	\$8,000	\$32,000	\$8,000
Judgment payable	210,112	0	71,386	138,726	27,489
Note payable – NMFA	0	58,432	651	57,781	3,042
Note payable - RCAC	0	329,939	0	329,939	0
Accrued compensated absences	9,559	7,245	3,400	13,404	0
	<u>\$259,671</u>	<u>\$395,616</u>	<u>\$83,437</u>	<u>\$571,850</u>	<u>\$38,531</u>

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, 2014. 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.

Amortized as follows:

<u>For the year ended June 30,</u>	Principal	Interest	Total
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>\$32,000</u>	<u>\$0</u>	<u>\$32,000</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 was added to principal. Quarterly payments of \$12,000 (principal and interest) are required until maturity on March 31, 2018.

Amortized as follows:

<u>For the year ended June 30,</u>	Principal	Interest	Total
2015	\$27,489	\$8,511	\$36,000
2016	39,541	8,459	48,000
2017	43,116	4,884	48,000
2018	28,580	1,124	29,704
	<u>\$138,726</u>	<u>\$22,978</u>	<u>\$161,704</u>

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7. LONG-TERM DEBT (CONTINUED)

On March 14, 2014, the District borrowed \$58,432 in accordance with Grant/Loan agreement #2998-CIF. The funds are to be used for water system improvements. The loan is interest free and is to be repaid in full by June 1, 2033. The District is to make annual payments on June 1st every year until paid in full. The next annual payment will be for \$3,042 and then \$3,041 in the following years until June 1, 2033.

Amortized as follows:

<u>For the year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$3,042	\$0	\$3,042
2016	3,041	0	3,041
2017	3,041	0	3,041
2018	3,041	0	3,041
2019	3,041	0	3,041
2020 – 2014	15,205	0	15,205
2025 – 2029	15,205	0	15,205
2030 – 2034	12,165	0	12,165
	<u>\$57,781</u>	<u>\$0</u>	<u>\$57,781</u>

On December 2, 2013, the District borrowed \$329,939 from the Rural Community Assistance Corporation. The funds are to be used towards design engineering and related costs for water distribution system improvements. The principal sum outstanding from time to time under this Note will bear interest at 5.5% per annum calculated on a 360-day year for the 24 month term of the loan. The first loan payment date was January 1, 2014 where the District did not make a payment. All principal and all accrued or unpaid interest are due and payable no later than January 1, 2016 maturity date. The interest reserve is returned by the lender and disbursed to pay interest when interest is due. When reserve is depleted, the District agrees to pay interest monthly. The principal and any unpaid accrued interest will be paid from the District's loan and/or grant for construction of water system improvements from USDA on or before January 1, 2016.

Amortized as follows:

<u>For the year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$0	\$18,147	\$18,147
2016	329,939	9,073	339,012
	<u>\$329,939</u>	<u>\$27,220</u>	<u>\$357,159</u>

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014.

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014
Line extension agreements	\$9,880	\$0	\$269	\$9,611

The District does not consider the entire balance at June 30, 2014 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, 2014, 2013, and 2012 were \$5,907, \$5,253, and \$7,838, respectively.

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

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10. 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, 2014 was \$55,826.

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 11. SUBSEQUENT EVENTS

Subsequent events were evaluated through November 26, 2014, which is the date the financial statements were available to be issued.

NOTE 12. OTHER REQUIRED DISCLOSURES

For the fiscal year ended June 30, 2014, the District over expended their budget as follows:

	Budget	Actual	Variance
Operating Expenses	\$649,284	\$780,159	(\$130,875)
Non-Operating Expenses:			
Capital/Infrastructure	30,204	181,741	(151,537)
Debt Service	86,000	98,673	(12,673)
	\$765,488	\$1,060,573	(\$295,085)

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, 2014

	Original Approved Budget	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Water services and fees	\$409,718	\$409,718	\$441,829	\$32,111
Trash collection	45,110	45,110	43,700	(1,410)
Recreational fees	4,176	4,176	4,865	689
Cemetery lot sales	4,600	4,600	400	(4,200)
Facilities and services fees	136,213	136,213	279,995	143,782
Rents and royalties	4,839	4,839	3,201	(1,638)
Contributions/donations	2,197	2,197	3,815	1,618
Operating grants	0	0	0	0
Other operating revenues	20,617	20,617	40,268	19,651
<i>Total operating revenues</i>	<u>627,470</u>	<u>627,470</u>	<u>818,073</u>	<u>190,603</u>
OPERATING EXPENSES				
Administration	60,279	60,279	64,782	(4,503)
General maintenance	74,218	74,218	117,046	(42,828)
Parks and recreation	51,232	51,232	48,336	2,896
Road maintenance	18,175	18,175	37,350	(19,175)
Water utilities	403,995	403,995	460,970	(56,975)
Cemetery	926	926	625	301
Golf course	40,459	40,459	51,050	(10,591)
<i>Total operating expenses</i>	<u>649,284</u>	<u>649,284</u>	<u>780,159</u>	<u>(130,875)</u>
<i>Operating income (loss)</i>	<u>(21,814)</u>	<u>(21,814)</u>	<u>37,914</u>	<u>59,728</u>
NON-OPERATING REVENUE (EXPENSES)				
Property tax, net of county's administrative fees	150,000	150,000	140,134	(9,866)
Interest revenue	573	573	648	75
Capital/infrastructure	(30,204)	(30,204)	(181,741)	(151,537)
Debt service	(86,000)	(86,000)	(98,673)	(12,673)
Capital grants	0	0	8,042	8,042
<i>Total non-operating revenue (expenses)</i>	<u>34,369</u>	<u>34,369</u>	<u>(131,590)</u>	<u>(165,959)</u>
<i>Net income (loss)</i>	<u>\$12,555</u>	<u>\$12,555</u>	<u>(\$93,676)</u>	<u>(\$106,231)</u>

Budgetary - GAAP Reporting Reconciliation:

Net income (budgetary basis)	(\$93,676)
Adjustments for expenditures - capital outlay, debt service, and depreciation	171,245
Change in net position (GAAP basis)	\$77,569

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, 2014

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Value June 30, 2014	Name of Location of Safekeeper
First National Bank	FNMA Pool #AJ1441	9/1/2026	3138ASS78	\$1,004,801	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, 2014

Bank Account Type/Name	NMFA	First National Bank	Otero Federal Credit Union	Totals
Funds held by Trustee	\$242,729	\$0	\$0	\$242,729
Checking	0	163,370	0	163,370
Savings	0	68,996	3,313	72,309
<i>Total on deposit</i>	<i>242,729</i>	<i>232,366</i>	<i>3,313</i>	<i>478,408</i>
Reconciling items	0	(19,383)	0	(19,383)
Reconciled balance	\$242,729	\$212,983	\$3,313	\$459,025
Cash and cash equivalents				\$216,296
Restricted cash				242,729
				\$459,025

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, 2014, 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 26, 2014.

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. 2007-002

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. 2014-001, 2014-002, and 2007-006

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-003.

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 26, 2014

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CURRENT YEAR SIGNIFICANT DEFICIENCIES:

2014-001 Untimely Deposit of Receipts – Significant Deficiency

Statement of Condition – During our test work of receipts, seven out of 40 receipts tested were not deposited timely. Deposits were made four days or longer after receipt of funds.

Criteria – Timberon Water & Sanitation District’s policy is to deposit at least two times per week which is equivalent to three days or less.

Cause – The District is in a remote location.

Effect – Potential for loss or theft of funds increases as time increases from receipt date to deposit date. Potential of NSF (Non-Sufficient Funds) checks increases as time increases from date of check written to date of deposit.

Recommendation – The District should enforce policy of deposits no less than three days.

Management’s Response – Timberon Water & Sanitation District strives to make bank deposits twice weekly, despite its remote location.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):

2014-002 Violation of Travel & Per Diem Regulations – Significant Deficiency

Statement of Condition – Out of 5 Travel & Per Diem disbursements tested, we noted the following exceptions:

- There were two instances where the employee received a 100% Per Diem advance rather than an 80%.
- There was one instance where an employee received Per Diem for overnight travel for an in-state special area when the trip was not to an in-state special area. The employee received \$135 per night rather than \$85 per night.

Criteria – In order to ensure proper Travel & Per Diem expenditures, Timberon Water & Sanitation District must comply with NMAC 2.42.2, The New Mexico Per Diem and Mileage Act.

Cause – Failure to use employee travel request form properly.

Effect – Increased risk of fraudulent activity involving Travel & Per Diem disbursements.

Recommendation – Follow travel request form which abides with Travel & Per Diem regulations set by NMAC 2.42.2.

Management's Response – TWSD issued the full amount beforehand and will not do so in the future.

TWSD issued the in-state special rate even though the area is not classified as such. It was for a training for the water operators and the room alone at the convention/training was over the general rate of \$85.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):

2014-003 Budget over Expended – Non Compliance

Statement of Condition – The District exceeded their budgeted expenditures as follows:

	Budget	Actual	Variance
Operating Expenses	\$649,284	\$780,159	(\$130,875)
Non-Operating Expenses:			
Capital/Infrastructure	30,204	181,741	(151,537)
Debt Service	86,000	98,673	(12,673)
	<u>\$765,488</u>	<u>\$1,060,573</u>	<u>(\$295,085)</u>

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 – The District is unfamiliar with the budget amendment process as this was the first year they have had a legally compliant budget.

Recommendation – The District should prepare budget amendments as needed based on changes in activities as reflected in their budget to actual reviews.

Management’s Response – The District will review the budget to actual status and submit budget adjustments as needed.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CURRENT STATUS ON PRIOR YEAR FINDINGS:

2012-001 FICA Tax Calculation Error – Non Compliance

Resolved and not repeated.

2012-002 – Overtime Included in PERA Wages – Non Compliance

Resolved and not repeated.

2012-003 – Travel and Per Diem Requests are Not Approved – Significant Deficiency

Resolved and not repeated.

2010-001 Swimming Pool Donations and Expenses – Significant Deficiency

Resolved and not repeated.

2009-002 Budget Procedures Not Followed – 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, 2014

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-002 (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 prior to purchase.
- *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.
- *Consumable Inventory* – No policy or procedures establishing inventory accountability and periodic count procedures. During test work of inventory list provided by client, we determined that inventory was disorganized, physical counts did not agree with list, and costs per unit were incorrect.

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 – Although new policies were drafted and implemented they do not adequately address the above deficiencies.

Recommendation – We recommend the District establish, document, and implement policies and procedures over all accounting processes.

Management's Response – A new Policy and Procedure Manual was drafted and implemented. A part-time accountant is now on staff to oversee the record keeping.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

2007-006 (2007-06) Capital Assets – Significant Deficiency

Repeated with modification.

Statement of Condition – The District performed a complete physical inventory and created their own capital asset listing. The capital asset listing was not compared and reconciled to prior year audited depreciation schedule and therefore does not address completeness.

Criteria – NMAC 2.20.1 provides regulations for the accounting and control of capital assets owned by governmental agencies. All capital assets must be maintained, recorded, and accounted for in accordance with NMAC 2.20.1.

Effect – Capital asset observation and listing potentially incomplete.

Cause – Physical inventory count was not reconciled to prior year audited depreciation schedule.

Recommendation – We recommend that the District should start with the audited depreciation schedule and then perform their yearly physical inventory of capital assets. If adjustments are necessary, the District should make adjustments to the capital asset listing in accordance with NMAC 2.20.1.

Management's Response – The District will reorganize their physical inventory of capital assets in accordance with the recommendation above.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
EXIT CONFERENCE
JUNE 30, 2014**

EXIT CONFERENCE:

The exit conference was held November 26, 2014 and was attended by the following:

From Timberon Water and Sanitation District:

Joe Mainello, Vice Chairman
Ronnie Wyatt, General Manager
DeAnna McCall, Assistant Accounting Clerk
Linda Martin, Accounting Clerk

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

Debbie A. Gray, CPA/Shareholder
Lucio Luttrell, Staff Auditor
Rebecca Pott, Staff 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.