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## **STATE OF NEW MEXICO**

# **TIMBERON WATER AND SANITATION DISTRICT**

## **FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

**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, 2016

**Board of Directors**

<b><u>Name</u></b>	<b><u>Title</u></b>
<i>Joe Mainello</i>	<i>Chairman</i>
<i>Arden Schug</i>	<i>Vice-Chairman</i>
<i>Mike Bovey</i>	<i>Treasurer</i>
<i>Marilyn Hatfield</i>	<i>Director</i>
<i>Richard McMullen</i>	<i>Director</i>

**Administrative Officials**

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

Mr. Tim Keller, 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, 2016, 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, 2016, 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. Tim Keller, 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, 2016, 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 through 8 and the pension liability schedules on pages 29 and 30 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.

The schedule of vendor information on page 37 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Mr. Tim Keller, 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 December 5, 2016 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  
December 5, 2016

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016

**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, 2016.

**Financial Highlights**

Key events for the Fiscal Year 2016 are:

- The assets and deferred outflows of the District exceeded liabilities and deferred inflows at the close of the most recent fiscal year by \$2,737,619 (*total net position*). The components of net position include net investment in capital assets \$1,933,178, restricted \$150,430, and unrestricted net position \$654,011.
- The District's total net position increased by \$188,523 compared to the prior year. This increase results primarily from increased grants and an increase in F & S income.
- As of June 30, 2016, the District had current and noncurrent assets totaling \$1,116,456 and \$2,325,265, respectively. Capital assets, net of accumulated depreciation totaled \$2,325,265. Current liabilities include \$100,511 in accounts payable, \$13,965 in payroll liabilities, and \$374,214 in current portion of long-term debt. Noncurrent liabilities included line extension agreements of \$1,304, notes payable of \$74,557, judgment payable of \$37,580, accrued compensated absences of \$15,703, and net pension liability of \$107,057.

**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 - 12 of this report.

***The Statement of Net Position*** presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, with the difference between them 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, 2016

*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 13 - 28 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 \$2,737,619 is reported at the close of the most recent fiscal year.

For the years ended June 30, 2016 and 2015, the District reported \$654,011 and \$554,672 of net position as unrestricted, respectively.

**Overview of the Statement of Net Position**

	2016	2015
<b>Assets:</b>		
Current assets	\$1,116,456	\$973,053
Capital assets, net	2,325,265	2,243,073
<i>Total assets</i>	3,441,721	3,216,126
<b>Deferred outflows</b>	23,541	8,278
<b>Liabilities:</b>		
Current liabilities	488,690	430,270
Noncurrent liabilities	236,201	220,580
<i>Total liabilities</i>	724,891	650,850
<b>Deferred inflows</b>	2,752	24,458
<b>Net Position:</b>		
Net investment in capital assets	1,933,178	1,858,395
Restricted	150,430	136,029
Unrestricted	654,011	554,672
<b><i>Total net position</i></b>	<b>\$2,737,619</b>	<b>\$2,549,096</b>



**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016

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

	2016	2015
<b>Revenues:</b>		
Water service and fees	\$522,228	\$486,415
Trash collection	46,010	44,384
Recreational fees	5,355	5,837
Cemetery lot sales	400	392
Facilities and services fees	248,411	322,467
Rents and royalties	4,680	5,695
Contributions/donations	10,322	6,176
Other operating revenue	601	629
<i>Total revenues</i>	838,007	871,995
<b>Operating Expenses:</b>		
Administration	103,301	126,719
General maintenance	108,321	100,001
Parks and recreation	60,484	63,018
Road maintenance	47,596	62,336
Water utilities	447,024	382,054
Cemetery	783	1,146
Golf course	26,026	32,211
Bad debt expense	25,202	0
Depreciation	83,478	85,753
<i>Total operating expenses</i>	902,215	853,238
<i>Non-operating revenue/(expenses)</i>	252,731	695,249
Increase (decrease) in net position	188,523	715,206
Net position – beginning, restated	2,549,096	1,833,890
<b><i>Net position – Ending</i></b>	<b>\$2,737,619</b>	<b>\$2,549,096</b>

**Financial Analysis of the District's Funds and Fiscal Year 2016 Budgetary Highlights**

As noted above, net position increased by \$188,523 from fiscal year 2015 to fiscal year 2016. Total operating revenues decreased by \$33,988, mainly due to a decrease in facilities and service fees. Total operating expenses increased in fiscal year 2016 to \$902,215, an increase of \$50,177 from the fiscal year 2015 operating expenses of \$852,038. The major factor in this increase was an increase in repairs and maintenance costs for the aging water infrastructure system.

The District amended their budget during the year for a reduction in debt service payments due to a renegotiation of payments for one note payable. The District exceeded their budget predominantly as a result of not budgeting their capital grant activity and expenditures in general maintenance and water utilities for repairs and maintenance.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016

**Capital Asset Administration**

The District's capital assets for business-type activities as of June 30, 2016 totals \$2,325,265 (net of accumulated depreciation). The changes in capital assets for the year besides depreciation expense were \$101,635 for additions to CIP for water system improvements.

Additional information on the District's capital assets can be found on page 20 of this report.

**Long-Term Debt**

The District's long-term debt at June 30, 2016 was \$502,054. The District paid \$34,997 in principal payments to decrease long-term debt balances in accordance with the debt obligation requirements.

Additional information on the District's long-term debt can be found on pages 21 and 22 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. Projects to improve the water system continue as long as funding is available.

**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, 2016

**Business-Type  
Activities**

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$275,909
Inventory	103,169
Accounts receivable - customers - metered water and trash (net of allowance of \$16,152)	10,557
Grants receivable	15,884
Stand-by fees receivable (net of allowance for doubtful accounts of \$286,210)	207,528
Facilities and services fees receivable (net of allowance for doubtful accounts of \$53,470)	314,339
Property taxes receivable	35,903
Accounts receivable - other	2,737
Prepaid expenses	0
Restricted assets:	
Cash held with trustee	150,430
<i>Total current assets</i>	1,116,456

**Capital Assets:**

Land	147,507
Construction in process	1,311,291
Infrastructure - water system	1,390,903
Buildings and improvements	648,552
Furniture, equipment, and vehicles	671,427
Accumulated for depreciation	(1,844,415)
<i>Total capital assets, net</i>	2,325,265

<i>Total assets</i>	3,441,721
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<b>Deferred outflows of resources - pension contributions</b>	23,541
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<b><i>Total assets and deferred outflows of resources</i></b>	<b>\$3,465,262</b>
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The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
STATEMENT OF NET POSITION  
JUNE 30, 2016

**Business-Type  
Activities**

**LIABILITIES AND NET POSITION**

**Current Liabilities:**

Accounts payable	\$100,511
Payroll liabilities	13,965
Current portion of long-term debt	374,214
<i>Total current liabilities</i>	488,690

**Noncurrent Liabilities:**

Line extension agreements	1,304
Accrued compensated absences	15,703
Judgement payable	37,580
Note payable - NM Board of Finance	16,000
Note payable - NMFA	58,557
Net pension liability	107,057
<i>Total noncurrent liabilities</i>	236,201

<i>Total liabilities</i>	724,891
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**Deferred inflows of resources - pension plan**

2,752

**Net Position:**

Net investment in capital assets	1,933,178
Restricted - construction project	38,803
Restricted - debt service	111,627
Unrestricted	654,011
<i>Total net position</i>	2,737,619

<b><i>Total liabilities, deferred inflows of resources, and net position</i></b>	<b>\$3,465,262</b>
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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, 2016

	<b>Business-Type Activities</b>
<b>OPERATING REVENUES</b>	
Water services and fees	\$522,228
Trash collection	46,010
Recreational fees	5,355
Cemetery lot sales	400
Facilities and services fees	248,411
Rents and royalties	4,680
Contributions/donations	10,322
Other operating revenues	601
<i>Total operating revenues</i>	838,007
<b>OPERATING EXPENSES</b>	
Administration	103,301
General maintenance	108,321
Parks and recreation	60,484
Road maintenance	47,596
Water utilities	447,024
Cemetery	783
Golf course	26,026
Bad Debt Expense	25,202
Depreciation	83,478
<i>Total operating expenses</i>	902,215
<i>Operating income (loss)</i>	(64,208)
<b>NON-OPERATING REVENUE AND (EXPENSES)</b>	
Property tax, net of county's administrative fees	152,702
Interest revenue	860
Loan expense	(1,542)
Interest expense	(28,404)
<i>Total non-operating revenue and (expenses)</i>	123,616
<i>Income (loss) before capital grants</i>	59,408
Capital grants	129,115
<i>Change in net position</i>	188,523
Total net position, beginning of year	2,549,096
<b><i>Total net position, end of year</i></b>	<b>\$2,737,619</b>

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, 2016

	<b>Business-Type Activities</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$743,842
Payments to suppliers and contractors	(299,924)
Payments to and benefits provided for employees	(457,744)
<i>Net cash provided by operating activities</i>	<u>(13,826)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Net property taxes received	156,829
Principal payments - operating loans	(34,997)
<i>Net cash provided by noncapital financing activities</i>	<u>121,832</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Capital grant	151,257
Principal and interest payments	(29,946)
Loan proceeds	11,000
Purchase of capital assets	(165,670)
Disposal of capital assets	0
<i>Net cash used by capital financing activities</i>	<u>(33,359)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	860
Sale of investments	0
<i>Net cash provided by investing activities</i>	<u>860</u>
<i>Net increase in cash and cash equivalents</i>	75,507
Cash and cash equivalents - beginning of year	350,832
<b><i>Cash and cash equivalents - end of year</i></b>	<b><u>\$426,339</u></b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES</b>	
Operating Income (loss)	(\$64,208)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	83,478
Bad debt expense	25,202
Change in assets and liabilities:	
(Increase) in accounts receivable	(119,367)
(Increase) in inventory	0
Increase in prepaid expenses	0
Increase in accounts payable	56,750
Increase in accrued payroll liabilities	(3,360)
Net change in pension contributions/liability	7,679
<i>Total adjustments</i>	<u>50,382</u>
<b><i>Net cash provided (used) by operating activities</i></b>	<b><u>(\$13,826)</u></b>

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, 2016

**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*.

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.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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.



**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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**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

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**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

*Pensions:* For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*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.

**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, 2016.

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.

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**NOTE. 3. DEPOSITS AND INVESTMENTS (CONTINUED)**

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, 2016 none of the District's deposits of \$291,525 were exposed to custodial credit risk. \$38,203 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
<b><u>First National Bank</u></b>			
Total amount on deposit in bank	\$288,203	\$0	\$288,203
Less FDIC coverage	(250,000)	0	(250,000)
Total uninsured public funds	38,203	0	38,203
Collateralized by securities held by a pledging institutions or by its	631,731	0	631,731
Uninsured and uncollateralized (over collateralized)	(\$593,528)	\$0	(\$593,528)
Collateral requirement (50% of uninsured funds)	\$19,101	\$0	\$19,101
Pledged collateral	631,731	0	631,731
Over (under) collateralized	\$612,630	\$0	\$612,630
<b><u>Otero Federal Credit Union</u></b>			
Total amount on deposit in bank	\$0	\$3,322	\$3,322
Less FDIC coverage	0	(3,322)	(3,322)
Total uninsured public funds	0	0	0
Collateralized by securities held by a pledging institutions or by its	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.

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**NOTE 4. PROPERTY TAX RECEIVABLE**

At June 30, 2016, the receivables represent 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:

<u>Property taxes receivable</u>	<u>\$35,903</u>
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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, 2016 to be fully collectible. The District has determined \$16,152 to be doubtful.

Stand-by fees receivable is the uncollected balance of stand by fees billed annually. At June 30, 2016, the balance was \$493,739 of which the collection of \$286,210 has been determined to be doubtful.

The District charges a fee to all lot owners for the maintenance of the communities’ facilities and services provided. The fee is billed annually currently at \$57 per lot owner. Facilities and services fees receivable at June 30, 2016 were \$367,809 of which the collection of \$53,470 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, 2016.

**NOTE 6. CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not depreciated:				
Land	\$147,507	\$0	\$0	\$147,507
Construction in process	1,145,621	165,670	0	1,311,291
<i>Total capital assets, not depreciated</i>	<u>1,293,128</u>	<u>165,670</u>	<u>0</u>	<u>1,458,798</u>
Capital assets, depreciated:				
Infrastructure – water system	1,390,903	0	0	1,390,903
Buildings and improvements	648,552	0	0	648,552
Furniture, equipment, and vehicles	671,427	0	0	671,427
<i>Total capital assets, depreciated</i>	<u>2,710,882</u>	<u>0</u>	<u>0</u>	<u>2,710,882</u>
Accumulated depreciation:				
Infrastructure – water system	(819,079)	(49,670)	0	(868,749)
Buildings and improvements	(391,706)	(18,342)	0	(410,048)
Furniture, equipment, and vehicles	(550,152)	(15,466)	0	(565,618)
<i>Total accumulated depreciation</i>	<u>(1,760,937)</u>	<u>(83,478)</u>	<u>0</u>	<u>(1,844,415)</u>
<b>Net book value</b>	<b><u>\$2,243,073</u></b>	<b><u>\$82,192</u></b>	<b><u>\$0</u></b>	<b><u>\$2,325,265</u></b>

Depreciation expense for the year amounted to \$83,478.

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**NOTE 7. LONG-TERM DEBT**

The following summarizes the changes in long-term debt:

	Balance June 30, 2015	Additions	Payments	Balance June 30, 2016	Due Within One Year
Note payable – NM State Board of Finance	\$24,000	\$0	\$0	\$24,000	\$8,000
Judgment payable	101,670	0	(31,406)	70,264	32,684
Note payable – NMFA	54,739	11,000	(3,591)	62,148	3,591
Note payable - RCAC	329,939	0	0	329,939	329,939
Accrued compensated absences	17,158	14,202	(15,657)	15,703	0
	<u>\$527,506</u>	<u>\$25,202</u>	<u>(\$50,654)</u>	<u>\$502,054</u>	<u>\$374,214</u>

**Note Payable – NM State Board of Finance**

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, 2015. 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. In November 2015, the District once again renegotiated the payment requirements to allow for no payment in December 2015 and resume annual payments of \$8,000 in December 2016.

Amortized as follows:

<u>For the year ended June 30,</u>	Principal	Interest	Total
2017	\$8,000	\$0	\$8,000
2018	8,000	0	8,000
2019	8,000	0	8,000
	<u>\$24,000</u>	<u>\$0</u>	<u>\$24,000</u>

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**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Judgement Payable**

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
2017	\$32,684	\$3,316	\$36,000
2018	28,580	1,124	29,704
	<u>\$61,264</u>	<u>\$4,440</u>	<u>\$65,704</u>

**Note Payable – NMFA #2998 CIF**

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 1<sup>st</sup> 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>	Principal	Interest	Total
2017	\$3,041	\$0	\$3,041
2018	3,041	0	3,041
2019	3,041	0	3,041
2020	3,041	0	3,041
2021	3,041	0	3,041
2022 – 2031	15,205	0	15,205
2032 – 2033	6,083	0	6,083
	<u>\$36,493</u>	<u>\$0</u>	<u>\$36,493</u>

**STATE OF NEW MEXICO**  
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**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Note Payable – RCAC**

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.

<u>For the year ended June 30.</u>	Principal	Interest	Total
2017	\$329,939	\$9,074	\$339,013

**Note Payable – NMFA #3197 CIF**

The District entered into a Grant/Loan agreement #3197-CIF through NMFA during the year with a loan amount of \$11,000. The funds are to be used for water system improvements – pond liner. The loan is interest free with a maturity date of June 1, 2035. Annual loan payments of \$550 are due annually beginning June 1, 2016.

Amortized as follows:

<u>For the year ended June 30.</u>	Principal	Interest	Total
2017	\$550	\$0	\$550
2018	550	0	550
2019	550	0	550
2020	550	0	550
2021	550	0	550
2022 – 2026	2,750	0	2,750
2027 – 2031	2,750	0	2,750
2032 – 2035	2,200	0	2,200
	<u>\$10,450</u>	<u>\$0</u>	<u>\$10,450</u>



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**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, 2016.

	Balance June 30, 2015	Restatement	Additions	Payments	Balance June 30, 2016
Line extension agreements	\$1,619	\$0	\$0	(\$315)	\$1,304

The District does not consider the entire balance at June 30, 2016 to be long-term; however, the District has not determined the amount that is considered to be short-term.

**NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**General Information about the Pension Plan**

**Plan description.** The Public Employees Retirement Fund (PERA Fund) is a **cost-sharing, multiple employer defined benefit pension plan**. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C- 1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 366.

**Benefits provided.** For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at [http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf).

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**NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)**

*Contributions.* The contribution requirements of defined benefit plan members and the Timberon Water and Sanitation District are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY14 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY14 annual audit report at [http://osanm.org/media/audits/366 Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf). The PERA coverage option that applies to Timberon Water and Sanitation District is Municipal General. Statutorily required contributions to the pension plan from the Timberon Water and Sanitation District was \$8,649 for the year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Timberon Water and Sanitation District's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2014 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

**For PERA Fund Division Municipal General,** at June 30, 2016, the Timberon Water and Sanitation District reported a liability of \$107,057 for its proportionate share of the net pension liability. At June 30, 2015, the Timberon Water and Sanitation District's proportion was .0105 percent, which was changed from its proportion measured as of June 30, 2014, of .0080 percent.

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**NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)**

For the year ended June 30, 2016, the Timberon Water and Sanitation District recognized PERA Fund Division Municipal General pension expense of \$8,708. At June 30, 2016, the Timberon Water and Sanitation District reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$2,371
Changes of assumptions	0	42
Net difference between projected and actual earnings on pension plan investments	0	339
Changes in proportion and differences between Timberon Water and Sanitation District contributions and proportionate share of contributions	14,892	0
Timberon Water and Sanitation District contributions subsequent to the measurement date	8,649	0
<b>Total</b>	<b>\$23,541</b>	<b>\$2,752</b>

\$8,649 reported as deferred outflows of resources related to pensions resulting from Timberon Water and Sanitation District contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	(\$2,836)
2018	(2,836)
2019	(2,836)
2020	5,756
2021	0
	<u>(\$2,752)</u>

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**NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)**

*Actuarial assumptions.* As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2014 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
• Investment rate of return	7.75% annual rate, net of investment expense
• Payroll growth	3.50% annual rate
• Projected salary increases	3.50% to 14.25% annual rate
• Includes inflation at	3.00% annual rate

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS – Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	21.1%	5.00%
International Equity	24.8	5.20
Private Equity	7.0	8.20
Core and Global Fixed Income	26.1	1.85
Fixed Income Plus Sectors	5.0	4.80
Real Estate	5.0	5.30
Real Assets	7.0	5.70
Absolute Return	4.0	4.15
Total	100.0%	

*Discount rate:* The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan’s fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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JUNE 30, 2016

**NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)**

*Sensitivity of the Timberon Water and Sanitation District's proportionate share of the net pension liability to changes in the discount rate.* The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Timberon Water and Sanitation District's net pension liability in each PERA Fund Division that Timberon Water and Sanitation District participates in, under the current single rate assumption; as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

<b>PERA Fund Division Municipal General</b>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Timberon Water and Sanitation District's proportionate share of the net pension liability	\$182,275	\$107,057	\$44,518

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued FY14 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

**Payables to the pension plan.** The District is legally required to make defined contributions to the cost sharing pension plan on behalf of its' participant employees. At June 30, 2016, the District had paid all required contributions and therefore, there is no payable to the pension plan.

**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 District pays annual premiums and all risk of loss is transferred.

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 December 5, 2016, which is the date the financial statements were available to be issued.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**NOTE 12. OTHER REQUIRED DISCLOSURES**

For the fiscal year ended June 30, 2016, the District over expended their budget as follows:

	Budget	Actual	Variance
Operating Expenses	\$727,827	\$827,050	(\$99,223)
Non-Operating Expenses:			
Capital/Infrastructure	0	165,670	(165,670)
Debt Service	10,164	29,946	(19,782)
	<u>\$737,991</u>	<u>\$1,022,666</u>	<u>(\$284,675)</u>

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TIMBERON WATER AND  
SANITATION DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY OF PERA FUND DIVISION  
MUNICIPAL GENERAL**

Public Employees Retirement Association (PERA) Plan  
Last 10 Fiscal Years\*

	As of Measurement Date	
	June 30, 2015	June 30, 2016
	<b>2016</b>	<b>2015</b>
Timberon Water and Sanitation District's proportion of the net pension liability (asset)	0.0105%	0.0080%
Timberon Water and Sanitation District's proportionate share of the net pension liability (asset)	\$107,057	\$62,409
Timberon Water and Sanitation District's covered-employee payroll (at measurement date)	\$111,870	\$84,391
Timberon Water and Sanitation District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	95.70%	73.95%
Plan fiduciary net position as a percentage of the total pension liability	76.99%	81.50%

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Timberon Water and Sanitation District will present information for those years for which information is available.



**SCHEDULE OF TIMBERON WATER AND  
SANITATION DISTRICT'S CONTRIBUTIONS**  
Public Employees Retirement Association (PERA) Plan  
**PERA FUND DIVISION - MUNICIPAL GENERAL**  
Last 10 Fiscal Years\*

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$8,649	\$8,278
Contributions in relation to the contractually required contribution	\$8,649	\$8,278
Contribution deficiency (excess)	\$0	\$0
Timberon Water and Sanitation District's covered-employee payroll	\$116,876	\$111,870
Contributions as a percentage of covered-employee payroll	7.40%	7.40%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Timberon Water and Sanitation District will present information for those years for which information is available.

**TIMBERON WATER AND SANITATION DISTRICT**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

**Public Employee Retirement Association Plan (PERA)**

**Changes of benefit terms.** The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY14 audit available at [http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2015.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf).

**Changes of assumptions.**

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2014 report is available at

[http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report\\_FINAL.pdf](http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report_FINAL.pdf). The summary of Key Findings for the PERA Fund (on page 2 of the report) states “based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation.

## 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, 2016

	Original Approved Budget	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Water services and fees	\$476,450	\$476,450	\$465,699	(\$10,751)
Trash collection	8,000	8,000	45,510	\$37,510
Recreational fees	5,549	5,549	5,568	\$19
Cemetery lot sales	400	400	400	\$0
Facilities and services fees	165,600	165,600	185,882	\$20,282
Rents and royalties	5,570	5,570	4,780	(\$790)
Contributions/donations	6,000	6,000	10,322	\$4,322
Operating grants	0	0	0	\$0
Other operating revenues	980	980	601	(\$379)
<i>Total operating revenues</i>	<u>668,549</u>	<u>668,549</u>	<u>718,762</u>	<u>50,213</u>
<b>OPERATING EXPENSES</b>				
Administration	77,409	77,409	101,868	(24,459)
General maintenance	82,784	82,784	110,426	(27,642)
Parks and recreation	53,992	53,992	62,107	(8,115)
Road maintenance	66,969	66,969	46,828	20,141
Water utilities	411,226	411,226	479,360	(68,134)
Cemetery	1,132	1,132	577	555
Golf course	34,315	34,315	25,884	8,431
<i>Total operating expenses</i>	<u>727,827</u>	<u>727,827</u>	<u>827,050</u>	<u>(99,223)</u>
<i>Operating income (loss)</i>	(59,278)	(59,278)	(108,288)	(49,010)
<b>NON-OPERATING REVENUE (EXPENSES)</b>				
Property tax, net of county's administrative fees	153,000	153,000	156,829	3,829
Interest revenue	684	684	746	62
Capital/infrastructure	0	0	(165,670)	(165,670)
Claims/Judgements	(24,000)	(24,000)	(24,000)	0
Debt service	(18,164)	(10,164)	(29,946)	(19,782)
Capital grants	0	0	113,230	113,230
<i>Total non-operating revenue (expenses)</i>	<u>111,520</u>	<u>119,520</u>	<u>51,189</u>	<u>(68,331)</u>
<i>Net income (loss)</i>	<u>\$52,242</u>	<u>\$60,242</u>	<u>(\$57,099)</u>	<u>(\$109,341)</u>

Budgetary - GAAP Reporting Reconciliation:

Net income (budgetary basis)	(\$57,099)
Adjustments for revenue accruals	131,117
Adjustments for expenditures - capital outlay, debt service, and depreciation	114,505
<i>Change in net position (GAAP basis)</i>	<u>\$188,523</u>

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

## OTHER SUPPLEMENTARY INFORMATION

**TIMBERBON WATER AND SANITATION DISTRICT**

SCHEDULE OF LEGISLATIVE GRANTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Project	Agency	Grant #	Effective Date	Reversion Date	Original Amount
SADA System Improvements	NMED	13-1475-STB	10/14/2014	6/30/2017	\$72,800
Maintenance Barn - Electrical System	NMED	13-1476-STB	12/3/2014	6/30/2017	42,560
Filtration Plant	NMED	14-1660-STB	12/3/2014	6/30/2017	27,000
Track Water Fund	NMED	14-1661-STB	10/14/2014	6/30/2016	45,000
Water Tank Construction	CIB/NMFA	2998-CIF	7/1/2014	3/14/2017	584,319
Pond Liner and Installation	CIB/NMFA	3197-CIF	5/29/2015	5/29/2018	110,000
Main Well - Variable Frequency Drive	NMED	15-0526-STB	11/12/2015	6/30/2019	28,000
Water System Improv. - Carissa Springs	CIB/NMFA	3363-CIF	02/26/16	02/26/19	236,929
<b>Grand totals</b>					<b>\$1,146,608</b>

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

**TIMBERBON WATER AND SANITATION DISTRICT**

SCHEDULE OF LEGISLATIVE GRANTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Project	Arts in Public Places	Net Amount	Expenditures to Date	Reverted	Remaining
SADA System Improvements	\$ -	\$72,800	\$14,504	\$ -	\$58,296
Maintenance Barn - Electrical System	-	42,560	14,504	-	28,056
Filtration Plant	-	27,000	15,043	-	11,957
Track Water Fund	-	45,000	38,026	6,974	-
Water Tank Construction	-	584,319	584,319	-	-
Pond Liner and Installation	-	110,000	48,320	-	61,680
Main Well - Variable Frequency Drive	-	28,000	-	-	28,000
Water System Improv. - Carissa Springs	-	236,929	-	-	236,929
<b>Grand totals</b>	<b>\$ -</b>	<b>\$1,146,608</b>	<b>\$714,716</b>	<b>\$6,974</b>	<b>\$424,918</b>

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

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
 SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS  
 JUNE 30, 2016

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Value June 30, 2016	Name of Location of Safekeeper
First National Bank	FNMA Pool #AJ1441	9/1/2026	3138ASS78	\$631,731	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, 2016

Bank Account Type/Name	USDA	NMFA	First National Bank	Otero Federal Credit Union	Totals
Funds held by Trustee	\$38,803	\$111,627	\$0	\$0	\$150,430
Checking	0	0	288,203	0	288,203
Savings	0	0	0	3,322	3,322
<i>Total on deposit</i>	<u>38,803</u>	<u>111,627</u>	<u>288,203</u>	<u>3,322</u>	<u>441,955</u>
Reconciling items	0	0	(15,616)	0	(15,616)
Reconciled balance	<u>\$38,803</u>	<u>\$111,627</u>	<u>\$272,587</u>	<u>\$3,322</u>	<u>\$426,339</u>
Cash and cash equivalents					\$275,909
Restricted cash					150,430
					<u>\$426,339</u>

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

**TIMBERON WATER AND SANITATION DISTRICT**

SCHEDULE OF VENDOR INFORMATION

for Purchases Exceeding \$60,000 (excluding GRT)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Prepared by Agency Staff Name: Linda Martin

Title: Accounting Clerk

Date: November 7, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (if applicable)	Type of Procurement	Vendor Name	Did Vendor win contract?
4097	Timberon Water & Sanitation District	Other Agencies	NONE			

**TIMBERON WATER AND SANITATION DISTRICT**  
**SCHEDULE OF VENDOR INFORMATION**  
for Purchases Exceeding \$60,000 (excluding GRT) (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Prepared by Agency Staff Name: Linda Martin

Title: Accounting Clerk

Date: November 7, 2016

\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of Vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit

**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. Tim Keller, 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, 2016, 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 December 5, 2016.

**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. Tim Keller, 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. 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 instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-001, 2014-002 and 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.  
Las Cruces, New Mexico  
December 5, 2016

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**CURRENT YEAR FINDINGS:**

**2016-001 Late Audit Report – Non Compliance**

**Statement of Condition** – Although the audit report was submitted by December 15, 2016, the report is considered late as an audit contract was not prepared until February 2017.

**Criteria** – Per 2.2.2.9 NMAC, the audit report due date for local public bodies is December 15 but is not considered received until the final approved contract is received by the State Auditor's Office.

**Cause** – Unfamiliarity with new electronic contract process.

**Effect** – Potential grant implications due to late report.

**Recommendation** – District personnel should consider attending the State Audit Rule training and make themselves familiar with the State Audit Rule each year.

**Management's Response** – The District will familiarize itself with the State Audit Rule each year and make an effort to send District personnel to the State Audit Rule training.

**CURRENT STATUS ON PRIOR YEAR FINDINGS:**

**2015-001 Asset Deletions - Notification – Other Matters**

Not repeated.

**2014-001 Untimely Deposit of Receipts – Significant Deficiency**

Resolved and not repeated.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):**

**2014-002 Violation of Travel & Per Diem Regulations – Non Compliance**

Repeated with modifications.

**Statement of Condition** – Out of 10 Travel & Per Diem disbursements tested, we noted the following exceptions:

- There were three instances where the employee received a per diem advance greater than 80% (\$102 excess, \$126 excess, and \$123 excess).
- There were three instances where an employee received per diem for overnight travel greater than the in-state special area amount. The employee received \$129 and \$140 per night rather than \$85 per night.

The District is still not properly completing the travel request form.

**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** –

- a. We will instigate a Travel Request form to be signed by the Manager.
- b. We will either comply with the 80% advance payment or require receipts for 100% reimbursement.
- c. To be in place January 1, 2017.
- d. General Manager responsible.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
 SCHEDULE OF FINDINGS AND RESPONSES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):**

**2014-003 Budget over Expended – Non Compliance**

Repeated with modifications.

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

	Budget	Actual	Variance
Operating Expenses	\$727,827	\$827,050	(\$99,223)
Non-Operating Expenses:			
Capital/Infrastructure	0	165,670	(165,670)
Debt Service	10,164	29,946	(19,782)
	<u>\$737,991</u>	<u>\$1,022,666</u>	<u>(\$284,675)</u>

Board members have submitted a compliant budget but are still learning about the budget amendment process.

**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.

**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 and budget capital grant activity.

**Management’s Response** –

- a. We will prepare amended adjustments to the budget for the DFA on any items in which the actual exceeded the budgeted amount.
- b. Additionally, we will update the budget to reflect grant revenue and expenses.
- c. To be in place with reports for 2nd Quarter due January, 2017.
- d. Treasurer responsible.



**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):**

**2007-002 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.

- *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* – The District does not have a policy in place to document pay rates in personnel files. Two of eleven employees tested did not have a completed W-4 on file and four of eleven employees tested did not have a completed I-9 on file. One employee’s personnel file could not be found.
- *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.
- *Control over remote receipting/locations* – (Golf, Pool and Fishing) lack good controls:
  - No control to ensure amount received is the amount deposited.
  - Receipts not kept in safe location.

Although the District continues to draft and implement policies as time and resources permit, their primary focus must be to keep the water system repaired and operable. Therefore, little progress has been made with regard to policies.

**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** – District policies do not adequately address the above deficiencies.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):**

**2007-002 Internal Control Design, Operation, Oversight and Segregation of Duties (Continued)**

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

**Management's Response** –

- a. We will instigate a voucher form to provide evidence of approval prior to expenditures made by January 1, 2017.
- b. We will set up a program to mark capital assets that corresponds to the fixed asset schedule number by June 30, 2017.
- c. We will review the payroll files to make sure that W-4 forms are updated every January and 1-9 are filled out for each employee by January 1, 2017.
- d. Inventory Controls - We will endeavor to establish an isolated place for inventory of new available parts and create bins for each with cost per item to make inventory count a manageable process by June 30, 2017. We will obtain cash receipt books for the pool and the golf course.
- e. Receipts will be turned into the office on a daily basis to be counted and put in the safe - by January 1, 2017.
- f. General Manager responsible.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):**

**2007-006 Capital Assets – Significant Deficiency**

Repeated.

**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. This condition remains unchanged from prior year.

**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 –**

- a. The District has not taken any independent action toward changing the audited Fixed Asset schedule. Members of the Board have proposed this action, but no action has been taken.
- b. We will make independent lists of Capital Assets purchased, and Capital Assets disposed during the Fiscal year and maintain that list for the future auditors by July 31, 2017. Bookkeeping Consultant responsible.
- c. The projections for replacement and maintenance of assets is a separate activity, and we are currently (December, 2016) in the process along with professional consultants to assist us in this project to be completed prior to June 30, 2017. Board Member responsible.

**STATE OF NEW MEXICO**  
**TIMBERON WATER AND SANITATION DISTRICT**  
EXIT CONFERENCE  
JUNE 30, 2016

**EXIT CONFERENCE:**

The exit conference was held December 9, 2016 and was attended by the following:

**From Timberon Water and Sanitation District:**

Joe Mainello, Chairman  
Ronnie Wyatt, General Manager  
Marilyn Hatfield, Director

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

Debbie A. Gray, CPA/Shareholder  
Rebecca Pott, Staff Auditor  
Leonardo Ramirez, 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.