

**STATE OF NEW MEXICO
TIMBERON WATER AND
SANITATION DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
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JUNE 30, 2017**

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**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
BOARD OF DIRECTORS
JUNE 30, 2017**

Joseph Mainello, President

Edward Bovey

Marilyn Hatfield

Arden Schug

Richard McMullen

Ron Wyatt, Manager



Clifford, Ross & Cooper, CPAs, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Timothy P. Clifford, CPA

Rodney I. Ross, CPA

Denise S. Cooper, CPA, CFE

INDEPENDENT AUDITOR'S REPORT

Mr. Wayne A. Johnson, 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, 2017, 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, 2017, 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. Wayne A. Johnson, 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 of the Timberon Water and Sanitation District, as of June 30, 2017, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

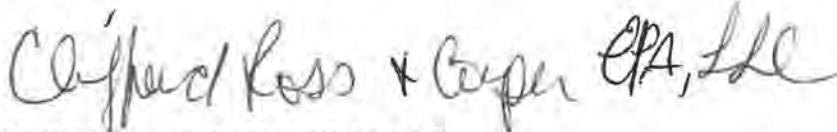
The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 and the schedule of expenditures of federal awards are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Mr. Wayne A. Johnson, 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 13, 2017 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Timberon Water and Sanitation District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Clifford, Ross & Cooper, CPAs, LLC
Las Cruces, New Mexico
December 13, 2017

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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, 2017.

Financial Highlights

Key events for the Fiscal Year 2017 are:

- The assets and deferred outflows of the District exceeded liabilities and deferred inflows at the close of the most recent fiscal year by \$4,696,353 (*total net position*). The components of net position include net investment in capital assets \$3,829,898, restricted \$55,742, and unrestricted net position \$810,713.
- The District's total net position increased by \$1,958,734 compared to the prior year. This increase results primarily from increased grants and an increase in F & S income.
- As of June 30, 2017, the District had current and noncurrent assets totaling \$1,240,622 and \$4,172,332, respectively. Capital assets, net of accumulated depreciation totaled \$4,172,332. Current liabilities include \$203,077 in accounts payable, \$18,202 in payroll liabilities, and \$35,603 in current portion of long-term debt. Noncurrent liabilities included line extension agreements of \$1,304, notes payable of \$341,329, accrued compensated absences of \$17,070, and net pension liability of \$169,353.

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
 - 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, 2017**

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 \$4,696,353 is reported at the close of the most recent fiscal year.

For the years ended June 30, 2017 and 2016, the District reported \$810,713 and \$654,011 of net position as unrestricted, respectively.

Overview of the Statement of Net Position

	2017	2016
Assets:		
Current assets	\$1,240,622	\$1,116,456
Capital assets, net	4,172,332	2,325,265
<i>Total assets</i>	5,412,954	3,441,721
Deferred outflows	71,018	23,541
Liabilities:		
Current liabilities	256,882	488,690
Noncurrent liabilities	529,056	236,201
<i>Total liabilities</i>	785,938	724,891
Deferred inflows	1,681	2,752
Net Position:		
Net investment in capital assets	3,829,898	1,933,178
Restricted	55,742	150,430
Unrestricted	810,713	654,011
<i>Total net position</i>	\$4,696,353	\$2,737,619

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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

	2017	2016
Revenues:		
Water service and fees	\$555,742	\$522,228
Trash collection	44,870	46,010
Recreational fees	6,046	5,355
Cemetery lot sales	3,000	400
Facilities and services fees	286,700	248,411
Rents and royalties	8,000	4,680
Contributions/donations	2,500	10,322
Other operating revenue	536	601
Total revenues	907,394	838,007
Operating Expenses:		
Administration	105,394	103,301
General maintenance	111,127	108,321
Parks and recreation	65,363	60,484
Road maintenance	67,254	47,596
Water utilities	455,841	447,024
Cemetery	1,901	783
Golf course	45,930	26,026
Bad debt expense	73,965	25,202
Depreciation	80,770	83,478
Total operating expenses	1,007,545	902,215
Non-Operating revenue/(expenses)	2,058,885	252,731
Increase (decrease) in net position	1,958,734	188,523
Net position - beginning, restated	2,737,619	2,549,096
Net position - Ending	\$4,696,353	\$2,737,619

Financial Analysis of the District's Funds and Fiscal Year 2017 Budgetary Highlights

As noted above, net position increased by \$1,958,734 from fiscal year 2016 to fiscal year 2017. Total operating revenues increased by \$69,387, mainly due to an increase in facilities and service fees. Total operating expenses increased in fiscal year 2017 to \$1,007,545, an increase of \$105,330 from the fiscal year 2016 operating expenses of \$902,215. 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, 2017

Capital Asset Administration

The District's capital assets for business-type activities as of June 30, 2017 totals \$4,172,332 (net of accumulated depreciation). The changes in capital assets for the year besides depreciation expense were \$1,927,837 for additions to CIP for water system improvements, purchase of land and equipment.

Additional information on the District's capital assets can be found on page 19 of this report.

Long-Term Debt

The District's long-term debt at June 30, 2017 was \$341,329. The District paid \$399,719 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, 2017**

	Business-Type Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 268,037
Inventory	103,169
Accounts receivable - customers - metered water and trash (net of allowance of \$18,895)	14,424
Grants receivable	173,027
Stand-by fees receivable (net of allowance for doubtful accounts of \$308,624)	222,681
Facilities and services fees receivables (net of allowance for doubtful accounts of \$102,188)	368,746
Property taxes receivables	31,714
Accounts receivable - other	2,780
Restricted assets:	
Cash held with trustee	56,044
Total current assets	1,240,622
Capital Assets:	
Land	171,988
Construction in process	3,203,962
Infrastructure - water usage	1,390,903
Buildings and improvements	659,237
Furniture and equipment	671,427
Accumulated for depreciation	(1,925,185)
Total capital assets, net	4,172,332
Total assets	5,412,954
Deferred outflows of resources - pension contributions	71,018
Total assets and deferred outflows of resources	\$ 5,483,972

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, 2017**

	<u>Business-Type Activities</u>
LIABILITIES AND NET POSITION	
Current Liabilities:	
Accounts payable	\$ 203,077
Payroll liabilities	18,202
Current position of long-term debt	35,603
Total current liabilities	<u>256,882</u>
Noncurrent Liabilities:	
Line extension agreements	1,304
Accrued compensated absences	17,070
Judgement payable	-
Note payable - NM Board of Finance	8,000
Note payable - NMFA	75,875
Note payable - USDA	257,454
Net pension liability	169,353
Total noncurrent liabilities	<u>529,056</u>
Total liabilities	785,938
Deferred inflows of resources - pension plan	<u>1,681</u>
Net Position:	
Net investment in capital assets	3,829,898
Restricted - construction project	9,160
Restricted - debt service	46,582
Unrestricted	810,713
Total net position	<u>4,696,353</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 5,483,972</u>

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, 2017**

	Business-Type Activities
OPERATING REVENUES	
Water services and fees	\$ 555,742
Trash collection	44,870
Recreational fees	6,046
Cemetery lot sales	3,000
Facilities and services fees	286,700
Rents and royalties	8,000
Contributions/donations	2,500
Other operating revenues	536
	907,394
 OPERATING EXPENSES	
Administration	105,394
General maintenance	111,127
Parks and recreation	65,363
Road maintenance	67,254
Water utilities	455,841
Cemetery	1,901
Golf course	45,930
Bad debt expense	73,965
Depreciation	80,770
Total operating expenses	1,007,545
Operating income (loss)	(100,151)
 NON-OPERATING REVENUE AND (EXPENSES)	
Property tax, net of county's administrative fees	151,129
Interest revenue	843
Loan expense	(28,151)
Interest expense	(21,492)
Total non-operating revenue and (expenses)	102,329
 Income (loss) before capital grants	 2,178
 Capital grants	 1,956,556
 Change in net position	 1,958,734
Total net position, beginning of year	2,737,619
Total net position, end of year	\$ 4,696,353

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

**STATE OF NEW MEXICO
TIMBERON WATER & SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 879,896
Payments to supplies and contractors	(295,952)
Payments to and benefits provided for employees	(482,236)
Net cash provided by operating activities	101,708
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net property taxes received	101,708
Principal payments - operating loans	(399,719)
Net cash provided by noncapital financing activities	(298,011)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital grant	1,731,582
Principal and interest payments	
Loan proceeds	290,300
Purchase of capital assets	(1,927,837)
Disposal of capital assets	
Net cash used by capital financing activities	94,045
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	843
Net cash provided by investing activities	843
Net increase in cash and cash equivalents	(102,258)
Cash and cash equivalents - beginning of year	426,339
Cash and cash equivalents - end of year	\$ 324,081
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (100,151)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	\$ 80,770
Bad debt expense	73,965
Change in assets and liabilities	
(Increase) in accounts receivable	(73,428)
Increase in accounts payable	102,567
Increase in accrued payroll liabilities	4,237
Net change in pension contribution/liability	13,748
Total adjustments	201,859
Net cash provided (used) by operating activities	\$ 101,708

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, 2017

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, 2017**

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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 affect 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, 2017**

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 mill levy. The results are provided to the county treasurer who presents all county-wide mill 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>	
Buildings and improvement	10-40
Furniture, equipment, and vehicles	5-20
Infrastructure- water system	10-25

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 governments' creditors or grantors. Unrestricted net position are all other net positions 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 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, 2017.

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.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017, none of the District's deposits of \$361,564 were exposed to custodial credit risk. \$111,564 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
Total amount on deposit in bank	\$361,564	\$0	\$361,564
Less FDIC coverage	(250,000)	0	(250,000)
Total uninsured public funds	111,564	0	111,564
Collateralized by securities held by a pledging institution	535,288	0	535,288
Uninsured and uncollateralized (over collateralized)	(\$423,724)	\$0	(\$423,724)
Collateral requirement (50% of uninsured funds)	\$55,782	\$0	\$55,782
Pledged collateral	535,288	0	538,288
Over (under) collateralized	\$479,506	\$0	\$479,506

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 the State of New Mexico.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4. PROPERTY TAX RECEIVABLE

At June 30, 2017, 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>\$31,714</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, 2017 to be fully collectible. The District has determined \$18,895 to be doubtful.

Stand-by fees receivable is the uncollected balance of stand by fees billed annually. At June 30, 2017, the balance was \$531,305 of which the collection of \$308,624 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, 2017 were \$470,934 of which the collection of \$102,188 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, 2017.

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not depreciated:				
Land	\$ 147,507	\$ 24,481	\$0	\$ 171,988
Construction in process	1,311,291	1,892,671	0	3,203,962
<i>Total capital assets, not depreciated</i>	<u>1,458,798</u>	<u>1,917,152</u>	<u>0</u>	<u>3,375,950</u>
Capital assets, depreciated:				
Infrastructure - water system	1,390,903	0	0	1,390,903
Buildings and improvements	648,552	10,685	0	659,237
Furniture, equipment, and vehicles	671,427	0	0	671,427
<i>Total capital assets, depreciated</i>	<u>2,710,882</u>	<u>10,685</u>	<u>0</u>	<u>2,721,567</u>
Accumulated depreciation:				
Infrastructure - water system	(868,749)	(49,670)	0	(918,419)
Buildings and improvements	(410,048)	(18,498)	0	(428,546)
Furniture, equipment, and vehicles	(565,618)	(12,602)	0	(578,220)
<i>Total accumulated depreciation</i>	<u>(1,844,415)</u>	<u>(80,770)</u>	<u>0</u>	<u>(1,925,185)</u>
Net book value	<u>\$2,325,265</u>	<u>\$1,847,067</u>	<u>\$0</u>	<u>\$4,172,332</u>

Depreciation expense for the year amounted to \$80,770.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7. LONG-TERM DEBT

The following summarizes the changes in long-term debt:

	Balance June 30, 2016	Additions	Payments	Balance June 30, 2017	Due Within One Year
Note payable - NM State Board of Finance	\$ 24,000	\$ 0	\$ (8,000)	\$16,000	\$8,000
Judgement payable	70,264	0	(51,765)	18,499	18,499
Note payable - NMFA	62,148	23,693	(5,145)	80,696	4,821
Note payable - RCAC	329,939	0	(329,939)	0	0
Note payable – USDA	0	266,000	(4,263)	261,737	4,283
Accrued compensated absences	15,703	11,307	(9,940)	17,070	0
	<u>\$502,054</u>	<u>\$301,000</u>	<u>(\$409,052)</u>	<u>\$394,002</u>	<u>\$35,603</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:

For the year ended June 30,	Principal	Interest	Total
2018	8,000	0	8,000
2019	8,000	0	8,000
	<u>\$16,000</u>	<u>\$0</u>	<u>\$16,000</u>

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 judgement was to accrue interest at 8.750% from the effective date of judgement (March 31, 2010). The capitalized interest from the date of judgement was added to principal. Quarterly payments of \$12,000 (principal and interest) are required until maturity on March 31, 2018.

Amortized as follows:

For the year ended June 30,	Principal	Interest	Total
2018	\$17,375	\$1,124	\$18,499
	\$17,375	\$1,124	\$18,499

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 1st every year until paid in full. The next annual payment will be for \$3,041 and then \$3,041 in the following years until June 1, 2033. Amortized as follows:

For the year ended June 30,	Principal	Interest	Total
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	3,041	0	3,041
2023 -2032	30,410	0	30,410
2033	3,042	0	6,083
	\$48,657	\$0	\$48,657

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 of \$308,772 was paid on December 19, 2016 from USDA loan and grant funds for construction of water system improvements.

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:

For the year ended June 30,	Principal	Interest	Total
2018	\$ 550	\$0	\$ 550
2019	550	0	550
2020	550	0	550
2021	550	0	550
2022	550	0	550
2023-2027	2,750	0	2,750
2028 - 2032	2,750	0	2,750
2033-2035	1,650	0	1,650
	\$9,900	\$0	\$9,900

Note Payable – USDA -Rural Development #0802-01

The District entered into a Grant/Loan agreement #0802-01 through USDA during the year with a loan amount of \$266,000. The funds are to be used for water system improvements, monthly payments of \$844. The loan accrues interest at 2.25% annually, maturing February, 2056.

Amortized as follows:

For the year ended June 30,	Principal	Interest	Total
2018	\$ 4,283	\$ 5,845	\$ 10,128
2019	4,380	5,748	10,128
2020	4,480	5,648	10,128
2021	4,582	5,546	10,128
2022	4,686	5,442	10,128
2023-2027	25,564	25,076	50,640
2028-2032	28,059	22,581	50,640
2033-2056	185,703	54,807	240,510
	\$261,737	\$ 130,693	\$392,430

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 fees from the owners who stand to benefit from the line extension but have not connected to the new extension. They 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, 2017.

	Balance June 30, 2016	Restatement	Additions	Payments	Balance June 30, 2017
Line extension agreements	\$1,619	\$0	\$0	(\$315)	\$1,304

The District does not consider the entire balance at June 30, 2017 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://saomn.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/AuditFinancialStatement/s366> Public Employees Retirement Association 2015.pdf.

STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 FY15 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 FY15 annual audit report at [http://osanm.org/media/audits/366 Public Employees Retirement Association_2015.pdf](http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2015.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 were \$6,363 for the year ended June 30, 2017.

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, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

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, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 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, 2017, the Timberon Water and Sanitation District reported a liability of \$169,353 for its proportionate share of the net pension liability. At June 30, 2016, the Timberon Water and Sanitation District's proportion was .0106 percent, which was changed from its proportion measured as of June 30, 2015.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

For the year ended June 30, 2017, the Timberon Water and Sanitation District recognized PERA Fund Division Municipal General pension expense of \$20,111. At June 30, 2017, the Timberon Water and Sanitation District reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 8,461	\$ 1,653
Changes in assumptions	9,931	28
Net difference between projected and actual earnings on pension plan Investments	31,161	0
Changes in proportion and differences between Timberon Water and Sanitation District contributions and proportionate share of contributions	15,102	0
Timberon Water and Sanitation District contributions subsequent to the Measurement date	<u>6,363</u>	<u>0</u>
Total	<u>\$71,018</u>	<u>\$ 1,681</u>

\$6,363 reported as deferred outflows of resources related to pensions resulting from Timberon Water and Sanitation District contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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,	
2018	\$17,111
2019	17,111
2020	20,844
2021	7,908
2022	0
	<hr/>
	\$62,974

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2016 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
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
Global Equity	43.5%	7.39%
Risk Reduction & Mitigation	21.5	1.79
Client Oriented Fixed Income	15.0	5.77
Real Assets	20.0	7.35
<hr/>		
Total	100.0%	

Discount rate: The discount rate used to measure the total pension liability was 7.25% for the first 10 years and 7.75% for all other years (ultimate). 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 7.48% blended rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 (6.48%) or one percentage point higher (8.48%) than the single discount rate.

	1% Decrease	Current Discount Rate	1% Increase
	(6.48%)	(7.48%)	(8.48%)
PERA Fund Division Municipal General			
Timberon Water and Sanitation District's proportionate share of the net pension liability	\$252,490	\$169,353	\$100,395

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 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, 2017, 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 13, 2017, 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, 2017**

NOTE 12. OTHER REQUIRED DISCLOSURES

For the fiscal year ended June 30, 2017, the District over expended their budget as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Non-Operating Expenses:			
Capital/Infrastructure	\$0	\$1,885,306	(\$1,885,306)
	<u>\$0</u>	<u>\$1,885,306</u>	<u>(\$1,885,306)</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, 2016 2017	June 30, 2015 2016	June 30, 2014 2015
Timberon Water and Sanitation District's proportion of the net pension liability (asset)	0.0106%	0.0105%	0.0080%
Timberon Water and Sanitation District's proportionate share of the net pension liability (asset)	\$ 169,353	\$ 107,057	\$ 62,409
Timberon Water and Sanitation District's covered-employee payroll (at measurement date)	\$ 116,876	\$ 111,870	\$ 84,391
Timberon Water and Sanitation District's proportionate share of the net pension liability (asset)	144.90%	95.70%	73.95%
Plan Fiduciary net position as a percentage of the total pension liability	69.18%	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, 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>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 6,363	\$ 8,649	\$ 8,278
Contributions in relation to the contractually required contribution	\$ 6,363	\$ 8,649	\$ 8,278
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Timberon Water and Sanitation District's covered employee payroll	\$ 85,992	\$ 116,876	\$ 111,870
Contributions as a percentage of covered-employee payroll	7.40%	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, 2017**

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 FY16 audit available at:

[http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366 Public Employees Retirement Association 2016.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366%20Public%20Employees%20Retirement%20Association%202016.pdf).

Changes of assumptions.

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at http://www.pera.state.nm.us/psf/Investments/RetirementFundValuationReports/6-30-2015%20PERA%20Valuation%29Report_FINAL.pdf.. The summary of Key Findings for the PERA Fund (on page 2 of the report).

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, 2017**

	Original Approved Budget	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Water services and fees	\$ 533,150	\$ 533,150	\$ 546,328	\$ 13,178
Trash collection	9,000	9,000	10,000	1,000
Recreational fees	5,668	5,668	5,861	193
Cemetery lot sales	400	400	3,000	2,600
Facilities and services fees	161,000	161,000	183,574	22,574
Rents and royalties	5,170	5,170	8,186	3,016
Contributions/donations	8,000	8,000	2,500	(5,500)
Other operating revenues	289	289	1353	1,064
Total operating revenues	<u>722,677</u>	<u>722,677</u>	<u>760,802</u>	<u>38,125</u>
OPERATING EXPENSES				
Administration	98,992	98,992	101,799	(2,807)
General maintenance	103,163	103,163	106,090	(2,927)
Parks and recreation	62,067	62,067	38,177	23,890
Road maintenance	59,188	59,188	60,688	(1,500)
Water Utilities	456,263	456,263	456,980	(717)
Cemetery	960	960	972	(12)
Golf course	44,862	44,862	46,443	(1,581)
Total operating expenses	<u>825,495</u>	<u>825,495</u>	<u>811,149</u>	<u>14,346</u>
Operating income (loss)	<u>(102,818)</u>	<u>(102,818)</u>	<u>(50,347)</u>	<u>23,779</u>
NON-OPERATING REVENUE (EXPENSES)				
Property tax, net of county's administrative fees	155,600	155,600	155,317	(283)
Interest revenue	605	605	800	195
Capital/infrastructure	-	-	(1,885,306)	(1,885,306)
Debt service	(23,275)	(23,275)	(21,719)	1,556
Capital grants	-	-	1,783,528	1,783,528
Total non-operating revenues (expenses)	<u>132,930</u>	<u>132,930</u>	<u>32,620</u>	<u>(100,310)</u>
Net income (loss)	<u>\$ 30,112</u>	<u>\$ 30,112</u>	<u>\$ (17,727)</u>	<u>\$ (76,531)</u>

Budgetary - GAAP Reporting Reconciliation:

Net income (budgetary basis)	\$ (17,727)
Adjustments for revenue accruals	297,721
Adjustments for expenditures - capital outlay, debt service, and depreciation	<u>1,678,740</u>
Change in net position (GAAP basis)	<u>\$ 1,958,734</u>

OTHER SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF LEGISLATIVE GRANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Project	Agency	Grant #	Effective Date	Reversion Date	Original Amount
SCADA System Improvement	NMED	13-1475-STB	10/14/2014	6/30/2017	\$ 72,800
Maintenance Barn - Electrical System	NMED	13-1476-STB	12/3/2014	6/30/2019	42,560
Filtration Plant	NMED	14-1660-STB	12/3/2014	6/30/2017	27,000
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 Conservation Plan	CIB/NMFA	3484-PG	3/31/2017	3/31/2020	50,000
Asset Management Plan	CIB/NMFA	3485-PG	2/13/2017	2/13/2017	50,000
Water System Improvement-Carissa Springs	CIB/NMFA	3363-Cif	2/26/2016	2/26/2019	236,929
Grand totals					<u><u>\$ 617,289</u></u>

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

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF LEGISLATIVE GRANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<u>Project</u>	<u>Arts in Public Places</u>	<u>Net Amount</u>	<u>Expenditures to Date</u>	<u>Reverted</u>	<u>Remaining</u>
SCADA System Improvements	\$ -	\$ 72,800	\$ 72,800	\$ -	\$ -
Maintenance Barn - Electrical System	-	42,560	14,504	-	28,056
Filtration Plant	-	27,000	27,000	-	-
Pond Liner and Installation	-	110,000	110,000	-	-
Main Well - Variable Frequency Drive	-	28,000	-	-	28,000
Water Conservation Plan		50,000	29,239		20,761
Asset Management Plan		50,000	15,673		34,327
Water System Improvement - Carissa Springs	-	236,929	14,533	-	222,396
Grand total	\$ -	\$ 617,289	\$ 283,749	\$ -	\$ 333,540

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, 2017**

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Value June 30, 2017</u>	<u>Name of Location of Safekeeper</u>
First National Bank	FNMA #AJ1441	9/1/2026	3138ASS78	\$ 479,199	Federal Home Loan Bank
First National Bank	FHLMC #P20607	5/1/2035	31283YR34	<u>56,089</u>	Federal Home Loan Mortgage Corp
				<u>\$ 535,288</u>	

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, 2017**

Bank Account Type, Name	NMFA	First National Bank	Totals
Funds held by Trustee	\$ 56,044	\$ -	\$ 56,044
Checking	-	287,290	287,290
Savings	-	74,274	74,274
Total on deposit	<u>56,044</u>	<u>361,564</u>	<u>417,608</u>
Reconciling items	-	(93,527)	(93,527)
Reconciled balance	<u>\$ 56,044</u>	<u>\$ 268,037</u>	<u>\$ 324,081</u>
Cash and cash equivalents			\$ 268,037
Restricted cash			<u>56,044</u>
			<u>\$ 324,081</u>

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

**STATEMENT OF NEW MEXICO
TIMBERSON WATER & SANITATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<u>Federal/Grantor/ Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Award Amount</u>	<u>Expenditures</u>
U.S. Department of Agriculture				
Direct Programs:				
Water & Waste Disposal Systems for Rural Communities	10.670	#0802-01	\$ 266,000	\$ 266,000
Water & Waste Disposal Loans and Grants (Section 306C)	10.770	#0802-01	3,031,000	1,868,811
			<u>\$ 3,297,000</u>	<u>\$ 2,134,811</u>

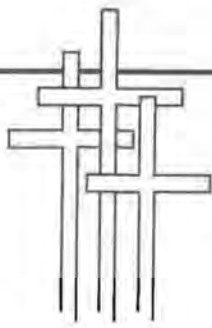
Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Timberon Water & Sanitation District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Timberon Water and Sanitation District, it is not intended to and does not present the financial position, changes in net position or cash flows of Timberon Water and Sanitation District.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Timberon Water and Sanitation District has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.



Clifford, Ross & Cooper, CPAs, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Timothy P. Clifford, CPA

Rodney I. Ross, CPA

Denise S. Cooper, CPA, CFE

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. Wayne A. Johnson, 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, 2017, 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 13, 2017.

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 questioned costs 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 questioned costs to be material weaknesses, # 2007-002.

Mr. Wayne A. Johnson, 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 questioned costs to be significant deficiencies, 2007-006.

Compliance and Other Matters

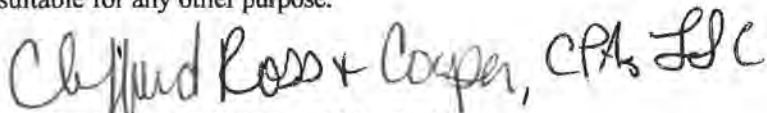
As part of obtaining reasonable assurance about whether Timberon Water and Sanitation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 material noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs 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 questioned costs. 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.



Clifford, Ross & Cooper, CPAs, LLC
Las Cruces, New Mexico
December 13, 2017



Clifford, Ross & Cooper, CPAs, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Timothy P. Clifford, CPA
Rodney I. Ross, CPA
Denise S. Cooper, CPA, CFE

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Mr. Wayne A. Johnson, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Timberon Water & Sanitation District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Timberon Water & Sanitation District's major federal programs for the year ended June 30, 2017. Timberon Water & Sanitation District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Timberon Water & Sanitation District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Timberon Water & Sanitation District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Timberon Water & Sanitation District's compliance.

Opinion on Each Major Federal Program

In our opinion, Timberon Water & Sanitation District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Timberon Water & Sanitation District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Timberon Water & Sanitation District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program

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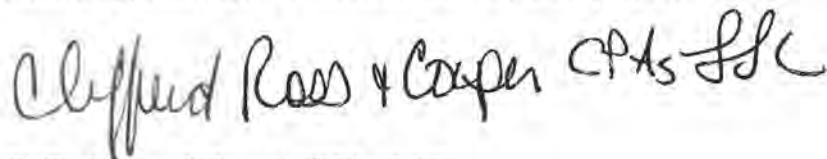
Mr. Wayne A. Johnson, State Auditor and
The Board of Directors
Timberon Water and Sanitation District
Timberon, New Mexico
Page Two

to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Timberon Water & Sanitation District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Clifford, Ross & Cooper, CPAs, LLC
Las Cruces, New Mexico
December 13, 2017

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency identified that are not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency identified that are not considered to be material weaknesses? Yes X No

Type of auditor's report issued on compliance with major programs: Unmodified

Findings and Questioned Costs for Federal Awards as defined in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles and Audit Requirements of Federal Awards (Uniform Guidance)

 Yes X No

Identification of Major Program

- a) Water and Waste Disposal Systems for Rural Communities CFDA #
10.760
- b) Water and Waste Disposal Loans and Grants (Section 306C) 10.770

- Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
- The auditee did not qualify as a low-risk auditee as defined in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles and Audit Requirements of Federal Awards Yes X No

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION II: FINANCIAL STATEMENT FINDINGS:

CURRENT YEAR FINDINGS:

None

CURRENT STATUS ON PRIOR YEAR FINDINGS:

2016-001 Late Audit Report. Resolved and not repeated in current year. Contract was signed during the extension period granted by the State Auditor.

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

Resolved and not repeated in current year.

2014-003 Budget Over Expended - Material Non-Compliance

Repeated with modifications.

Statement of Condition - The District exceeded their budgeted expenditures for Non-operating expenses as follows:

	Budget	Actual	Variance
Non-Operating Expenses:			
Capital/Infrastructure	\$0	(\$1,885,306)	(\$1,885,306)
	\$0	(\$1,885,306)	(\$1,885,306)

Board members have submitted a budget for operating expenditures but not for non-operating expenditures. The District has worked hard to make sure the budget for the operating expenditures is prepared, however, the expenditures for capital/infrastructure is not included in the District's accounting software so is not picked up for the regular budget. They are currently reviewing the procedures to capture the capital/infrastructure expenditures to be included in future budgets.

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. This is a repeat finding from previous years.

Effect - The District is not in compliance with state requirements.

Cause - The District was not aware that it has to budget for non-operating expenses, i.e., capital/infrastructure, grant activity and debt service.

Recommendation- The District should prepare a budget that includes capital/infrastructure, grant activity and debt service. The budget should be monitored monthly and budget adjustments prepared for line items that have been over expended.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION II: FINANCIAL STATEMENT FINDINGS (CONTINUED):

CURRENT STATES OF PRIOR YEAR FINDINGS (CONTINUED)

2014-003 Budget Over Expended (Continued)- Material Non-Compliance

Views of responsible officials and planned corrective actions -

- a. We will prepare budgets that will include capital/infrastructure, grant activity and debt service. We will also do amended adjustments to the budget for the DFA on any items in which the actual exceeds the budgeted amount.
- b. Additionally, we will update the budget to reflect any new grant revenues and expenses.
- c. To be in place with reports for 2nd Quarter due January, 2018.
- d. Treasurer responsible.

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 ensure 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. Six of twenty-six employees tested did not have a completed I-9 on file.
- *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.

Although the District continues to draft and implement policies as time and resources permit, their primary focus is to keep the water system repaired and operable. Therefore, little progress has been made with regard to policies. They have started to address the policies but had not fully implemented them as of June 30, 2017.

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)

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION II: FINANCIAL STATEMENT FINDINGS (CONTINUED):

CURRENT STATUS ON PRIOR YEAR FINDINGS (CONTINUED):

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

Material Weakness

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.

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

Views of responsible officials and planned corrective actions –

- a. We will instigate a voucher form to provide evidence of approval prior to expenditures made by January 1, 2018.
- b. We will implement a new Asset Management program to record all assets and reconcile the assets to the general ledger by June 30, 2018.
- c. We will review the payroll files to make sure that 1-9 are filled out for each employee by January 1, 2018.
- 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, 2018.
- e. General Manager responsible.

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 years. They have received a current grant for a Asset Management Plan to help with the water system. They plan to use this as a first step in creating a complete fixed asset schedule.

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.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

2007-006 Capital Assets (continued)- Significant Deficiency

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.

Views of responsible officials and planned corrective actions -

- 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. Bookkeeping Consultant responsible.
- c. The projections for replacement and maintenance of assets is a separate activity, and we are currently working on an Asset Management Program, which will be implemented by fiscal year ended June 30, 2018. Board Member responsible.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

No matters were reported.

OTHER INFORMATION

**TIMBERON WATER AND SANITATION DISTRICT
PO BOX 40/ONE BOB WHITE CIRCLE
TIMBERON, NEW MEXICO 88350
(575) 987-2250/FAX (575) 987-2230**

CORRECTIVE ACTION PLAN

2014-003 Budget Over Expended

Recommendation – The District should review the budget monthly and prepare budget amendments as needed to reflect the budget for capital outlay.

Views of responsible officials and planned corrective actions -

- a. We will prepare budgets that will include capital/infrastructure, grant activity and debt service. We will also do amended adjustments to the budget for the DFA on any items in which the actual exceeds the budgeted amount.
- b. Additionally, we will update the budget to reflect any new grant revenues and expenses.
- c. To be in place with reports for 2nd Quarter due January, 2018.
- d. Treasurer responsible.

2007-002 Internal Control Design, Operation, Oversight and Segregation of Duties - Material Weakness

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

Views of responsible officials and planned corrective actions -

- a. We will instigate a voucher form to provide evidence of approval prior to expenditures made by January 1, 2018.
- b. We will implement a new Asset Management program to record all assets and reconcile the assets to the general ledger by June 30, 2018.
- c. We will review the payroll files to make sure that 1-9 are filled out for each employee by January 1, 2018.
- 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, 2018.
- e. General Manager responsible.

CORRECTIVE ACTION PLAN (CONTINUED)

2007-006 Capital Assets - Significant Deficiency

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.

Views of responsible officials and planned corrective actions -

- 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. Bookkeeping Consultant responsible.
- c. The projections for replacement and maintenance of assets is a separate activity, and we are currently working on an Asset Management Program, which will be implemented by fiscal year ended June 30, 2018. Board Member responsible.

Timberon Water and Sanitation District

A handwritten signature in black ink, appearing to be the initials 'RW'.

**STATE OF NEW MEXICO
TIMBERON WATER AND SANITATION DISTRICT
EXIT CONFERENCE
JUNE 30, 2017**

EXIT CONFERENCE:

The exit conference was held December 13, 2017 and was attended by the following:

From Timberon Water and Sanitation District:

Joe Mainello, Chairman
Ronnie Wyatt, General Manager
Linda Martin, Accounting Clerk

From Clifford, Ross & Cooper, CPAs, LLC:

Denise S. Cooper, CPA

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 Clifford, Ross & Cooper, CPAs, LLC.