

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2008

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
OFFICAL ROSTER
JUNE 30, 2008

JUDGES OF THE DISTRICT COURT
SECOND JUDICIAL DISTRICT OF THE STATE OF NEW MEXICO

Honorable William Edward Parnall	Division No. 1
Honorable Stan Whitaker	Division No. 2
Honorable M. Monica Zamora	Division No. 3
Honorable Linda M. Vanzi	Division No. 4
Honorable Ted Baca	Division No. 5
Honorable Neil Candelaria	Division No. 6
Honorable John J. Romero, Jr.	Division No. 7
Honorable Ross C. Sanchez	Division No. 8
Honorable Bob Schwartz	Division No. 9
Honorable Theresa Baca	Division No. 10
Honorable Ernesto J. Romero	Division No. 11
Honorable Clay Campbell	Division No. 12
Honorable Valerie A. Huling	Division No. 13
Honorable Reed Sheppard	Division No. 14
Honorable Richard Knowles	Division No. 15
Honorable Carl Butkus	Division No. 16
Honorable Nan G. Nash	Division No. 17
Honorable Denise Barela Shepherd	Division No. 18
Honorable Albert S. (Pat) Murdoch	Division No. 19
Honorable William F. Lang	Division No. 20
Honorable Angela A. Jewell	Division No. 21
Honorable Deborah Davis Walker	Division No. 22
Honorable Geraldine E. Rivera	Division No. 23
Honorable Kenneth H. Martinez	Division No. 24
Honorable Elizabeth Whitefield	Division No. 25
Honorable Charles Brown	Division No. 26

BOARD OF DIRECTORS

	<u>Position No.</u>	<u>County</u>
Gary D. Perry, Chairman	6	Socorro
James C. Roberts, Vice-Chairman	4	Bernalillo
Cecil Eugene Abeita	1	At-large
Augusta Meyers	2	Bernalillo
William M. Turner	3	Bernalillo
Janet Jarratt	5	Valencia
Jimmy W. Wagner	7	Sandoval

OFFICERS

Subhas K. Shah	Chief Engineer and Chief Executive Officer
Steven Houser	Secretary/Treasurer
Jeanette Bustamante	Administrative Officer
Law & Resource Planning Associates	General Counsel



MACKIE, REID &
COMPANY, PA

INDEPENDENT AUDITORS' REPORT

Certified Public Accountants

The Judges of the District Court of the
Second Judicial District of the State
of New Mexico

and

The Board of Directors of the
Middle Rio Grande Conservancy District
and

Mr. Hector H. Balderas, State Auditor

We have audited the accompanying financial statements of the governmental activities and each major fund of the Middle Rio Grande Conservancy District, State of New Mexico, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

We were unable to confirm certain receivables from the Bureau of Indian Affairs which total \$1,623,983 as of June 30, 2008, and we were unable to satisfy ourselves through alternative procedures. These receivables are included in receivables from government contracts in the accompanying financial statements.

As more fully described in note 12 (b) to the financial statements, a U. S. District Court ruling granted title to certain Middle Rio Grande Conservancy District property to the U. S. Government. The District has appealed this ruling. If this ruling is upheld and if the facts behind the ruling were to apply to all District structures and related land tracts the impact on the accompanying financial statements could be significant. The dollar impact of this ruling on the District assets, liabilities, fund balances, net assets and revenues has not been determined.

In our opinion except for the effects described in the preceding paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had we been able to confirm the receivables referred to in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Middle Rio Grande Conservancy District as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 11 to the financial statements, the Middle Rio Grande Conservancy District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* effective July 1, 2007. The Statement was implemented prospectively. In addition, as described in note 15 to the financial statements, the Middle Rio Grande Conservancy District changed the contract revenue recognition policy on the Bureau of Indian Affairs government contract.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2008 on our consideration of Middle Rio Grande Conservancy District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and the Schedule of Funding Progress on page 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Middle Rio Grande Conservancy District. The schedule of cash accounts and pledged collateral is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mackie, Reid & Company
Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
November 25, 2008

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

The Middle Rio Grande Conservancy District's discussion and analysis is provided as an overview of the District's financial activities for the fiscal year ending June 30, 2008. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10), provide information about the District as a whole and presents a longer term view of the District's finances. Fund financial statements start on page 11. For governmental activities, these statements demonstrate how services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. This discussion and analysis of the District should be read in conjunction with these financial statements.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$ 4.2 million or 10.5% for the year ended June 30, 2008.
- Program generated revenues totaled \$ 6.0 million for the year ended June 30, 2008.
- Program related expenditures amounted to \$14.7 million during the same period.
- General revenues were \$12.5 million for the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - management's discussion and analysis, and the basic financial statements which include supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in greater detail than the government-wide statements.
 - Governmental Funds statements demonstrate how general government services were financed in the short-term as well as what remains for future spending.
 - A Budgetary Comparison statement compares actual results with budgeted or anticipated results.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The analysis of the District as a whole begins on page 4. The Statement of Net Assets and Statement of Activities report information about the District as a whole. These statements include all assets and liabilities using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net assets and changes in net assets. You can think of the District's net assets - the difference between assets and liabilities, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's ad valorem tax base and the condition of the District's facilities, to assess the overall health of the District.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES (continued)

All of the District's services are included within the Statement of Net Assets and Statement of Activities as governmental activities. These services include constructing and maintaining a distribution system for irrigation, maintaining flood protection and river control, water storage facilities and other improvements considered necessary for public health, safety, convenience and welfare. Ad valorem taxes and water service assessments finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

The District has one type of fund - governmental. All of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow, and (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services provided. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance District programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds are described in a reconciliation following each fund financial statement.

FINANCIAL ANALYSIS

Total assets at June 30, 2008 and 2007, were \$46,344,929 and \$42,236,711, respectively. As of June 30, 2008 and 2007, the District held land and capital assets of \$13,967,906 and \$9,947,103 respectively, net of accumulated depreciation of \$11,287,959 in 2008 and \$10,331,604 in 2007. (Additions to capital assets are further explained in the section entitled "Capital Assets and Debt Administration" presented below.) Other assets amounted to \$32,377,023 as of June 30, 2008 and \$32,289,608 as of June 30, 2007. Total liabilities as of June 30, 2008 and 2007, respectively were \$2,034,745 and \$2,137,137 including current liabilities of \$1,365,144 in 2008 and \$1,820,643 in 2007. Total long-term liabilities as of June 30, 2008 and 2007 were \$669,601 and \$316,494, respectively. Beginning fiscal year 2008, the District implemented GASB 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which resulted in recording a long-term liability. An independent actuary was contracted to determine the District's annual required contribution for funding purposes. The contribution was calculated as \$435,081 for fiscal year 2008. As of June 30, 2008 net assets included unrestricted net assets of \$30,399,187 and \$13,910,997 invested in capital assets, net of related debt. As of June 30, 2007, net assets included unrestricted net assets of \$30,317,187 and \$9,782,387 invested in capital assets, net of related debt. The increased fiscal year 2008 invested in capital asset balance was due to significant increases in property and equipment purchases as well as construction in progress on two new long-term asset projects undertaken to improve the Albuquerque West Levee and the Bernardo Siphon (see the section entitled "Capital Assets and Debt Administration" presented below).

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

FINANCIAL ANALYSIS (continued)

Total revenues for the years ended June 30, 2008 and 2007 were \$18,519,362 and \$17,752,263, respectively. This includes general revenues of \$12,485,114 in 2008 and \$13,012,873 in 2007, and program revenues in the amount of \$6,034,248 in 2008 and \$4,739,390 in 2007. Increased program revenue was due to a \$1,012,500 water repayment obligation that was fulfilled by the City of Albuquerque. Total expenses were \$14,682,319 in 2008 and \$13,879,364 in 2007. The total change in net assets for the years ended June 30, 2008 and 2007 was an increase of \$3,837,043 and \$3,872,899 respectively, resulting in net asset balances of \$44,310,184 and \$40,099,574 as of June 30, 2008 and 2007. Water service assessment revenue remained relatively unchanged with June 30, 2008 revenues of \$1,572,359 compared to June 30, 2007 revenues of \$1,572,663. Ad valorem revenue for fiscal year 2008 was slightly down when compared to fiscal year 2007 with revenues of \$11,236,311 and \$11,331,173 respectively. Water 2025 (capital grant) revenue for fiscal year 2008 was \$1,148,678 compared to fiscal year 2007 revenue of \$873,671. Contract revenue from governmental entities was higher in 2008 when compared to 2007. Interest investment revenue was lower due to general overall economic conditions with fiscal year 2008 revenue of \$1,031,882 compared to fiscal year 2007 revenue of \$1,289,932.

At June 30, 2008 and 2007, total equity in all funds was \$26,366,006 and \$27,768,933, respectively. This decrease was caused by increased capital outlay expenditures for fiscal year 2008. For the year ended June 30, 2008 reserved fund balances included \$955,935 reserved for inventories and prepaid expenses and \$1,043,646 reserved for encumbrances. Unreserved fund balances included \$7,112,960 designated for endowment, \$7,674,887 designated for subsequent year expenditures, and \$1,934,365 designated for general budget reserve. For the year ended June 30, 2007 reserved fund balances included \$853,128 reserved for inventories and prepaid expenses and \$649,297 reserved for encumbrances. Unreserved fund balances for the year ended June 30, 2007 included \$7,099,184 designated for endowment, \$3,500,000 designated for subsequent years expenditures, and \$1,530,918 designated for general budget reserve. The significant increase in fiscal year 2008 unreserved fund balance designated for subsequent years expenditures was due to the District's decision to keep mill rates the same in fiscal years 2008 and 2009 and thereby not choosing to pass on to the taxpayers the fiscal year 2009 expenditure of \$4,000,000 to complete the Albuquerque West Levee project. The District's undesignated portion of fund balance as of June 30, 2008 and 2007 respectively is \$7,644,213 and \$14,136,406.

For the year ended June 30, 2008 there was an excess of expenditures over revenues of \$1,402,927. This included excess expenditures in the general fund of \$1,465,279 and an excess of revenue over expenditures in the special revenue fund in the amount of \$62,352. This excess of expenditures was the result of unbudgeted Albuquerque West Levee expenses. Total available revenue sources were \$125,341 more in 2008 than 2007. Total expenditures were \$2,603,820 more in 2008 than 2007 due to significant budgeted capital outlay expenses and unbudgeted and on-going Albuquerque West Levee construction.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District follows defined procedures in establishing the budgetary data reflected in the financial statements. The District submits a proposed budget to the Governing Board and to the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) for the fiscal year commencing the following July 1. The Governing Board and DFA must approve the budget prior to its legal enactment. The original fiscal year budget and amendments as presented were approved by DFA. The District does not adopt a legal budget for the special revenue fund.

The expenditures of the general fund may not legally exceed the budget. Adjustments within the budget line items must be approved by the Board of Directors. Any increases to budgeted line items must also be submitted to and approved by DFA in the form of a "budget adjustment request". There are no differences between the original and final budget.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

The budgetary comparisons are presented on a non- GAAP budgetary basis which includes encumbrances as expenditures and does not include capital outlay financed through capital lease transaction sources, but rather includes actual lease payments made. For the fiscal years ended June 30, 2008 and 2007, the District budgeted expenditures to exceed revenues by \$3,500,000 and \$2,458,530 respectively. Reserves of cash and investments were used to complete the budget process.

For the year ended June 30, 2008, actual revenues received were \$16,936,764, which exceeded budgeted revenues by \$2.1 million. Favorable variances included ad valorem tax collections, delinquency charges, interest revenue and other revenue. Unfavorable variances included water service assessments, contract revenue from governmental entities and operating and capital grants.

For the year ended June 30, 2008, actual expenditures incurred were \$18,796,392, which exceeded budgeted expenditures \$425,382. Favorable variances included personnel services, employee benefits, contractual operating and maintenance services, field expenses, and general and administration expense. Unfavorable variances included capital outlay expenditures due to the unbudgeted Albuquerque West Levee Project and the Water 2025 expenditures classified as general and administration expense and field expense.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2008 and 2007, the District owned \$25,255,865 and \$20,278,707 respectively, of land and capital assets. This included \$14,018,555 in 2008 and \$12,456,199 in 2007 invested in equipment and vehicles to maintain District facilities; \$3,428,523 in 2008 and \$3,423,102 in 2007 invested in land and buildings; \$5,772,614 in 2008 and \$3,425,476 in 2007 invested in infrastructure; and \$981,900 in 2008 and \$973,930 in 2007 invested in office furniture and related equipment. Significant changes in infrastructure from fiscal year 2008 compared to fiscal year 2007 were due to \$2,347,138 of Water 2025 infrastructure expenditures. Additionally in 2008 the District began long-term construction projects of the Albuquerque West Levee and the Bernardo Siphon which resulted in a construction in progress balance of \$1,054,273 as of June 30, 2008. Additions to capital assets for the fiscal years ended June 30, 2008 and 2007 were \$5,024,821 and \$2,685,222 respectively. Major additions for the current fiscal year included vehicles and trailers of \$881,624; heavy field equipment of \$692,961; infrastructure assets of \$2,347,138 and construction in progress of \$1,054,273. Deletions for the fiscal years ended June 30, 2008 and 2007 were \$47,663 and \$515,097 respectively.

Ending accumulated depreciation as of June 30, 2008 and 2007 was \$11,287,959 and \$10,331,604 respectively. Net book value of capital assets was \$13,967,906 as of June 30, 2008 and \$9,947,103 as of June 30, 2007.

There were no new capital leases for the year ended June 30, 2008 or 2007. Principal repayments on capital lease obligations for the year ending June 30, 2008 and 2007 were \$107,807 and \$163,358 respectively. Included in capital asset balances as of June 30, 2008 and 2007 was \$236,384 and \$609,474 worth of leased heavy equipment. Ending capital lease obligations were \$56,909 as of June 30, 2008 and \$164,716 as of June 30, 2007.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

DISTRICT HIGHLIGHTS

During fiscal year 2008, the Middle Rio Grande Conservancy District continued its 80-year-old mission of providing drainage, flood control and irrigation to a 150-mile-long stretch of the Middle Rio Grande Valley.

The irrigation season began as scheduled on March 1, 2008 and ended as scheduled on October 31, 2008. Some of the Conservancy's water conveyance system remained open until November 15, 2008 in order to provide additional water to the six Indian pueblos in the Conservancy's boundaries.

The year's biggest project was completing the design phase of a \$6 - 7 million cooperative effort by the Conservancy, Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA), Bernalillo County and the U.S. Army Corps of Engineers to rebuild a 3.2 mile long section of levee in Albuquerque's South Valley (Albuquerque West Levee).

The spoil-bank levee was built in the 1930s and did not meet new levee standards set forth by the Corps of Engineers. Based on the original estimated cost of \$6 million, AMAFCA and Bernalillo County will provide \$1 million each, with the Conservancy providing the balance of upfront money. The Conservancy, AMAFCA, and Bernalillo County will negotiate in good faith for additional contributions to fund the project costs in excess of the original estimate.

The federal government will reimburse the agencies 75 percent of the cost of the project. Construction is expected to begin in mid-to-late November, 2008 and completion is scheduled for early spring, 2009.

The Conservancy's seven-member board of directors held the line on property taxes for the fiscal year. The board trimmed the proposed budget to keep the residential and non-residential mill levies the same as they were last year.

The Bosque Boogie race through the Rio Grande Bosque returned after a two-year hiatus. The race was held on October 12, 2008 and drew 503 runners.

The District is working closely with the United States Bureau of Reclamation and United States Fish and Wildlife Service to prepare environmental assessments for the San Acacia Fish Passage and Bernardo Siphon.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

CONTACTING DISTRICT MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, legislators, and other stakeholders a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

Middle Rio Grande Conservancy District
1931 Second Street SW
PO Box 581
Albuquerque, NM 87103
(505) 247-0234

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,832,905
Investments	23,854,130
Current receivables, net:	
Interest	44,371
Ad valorem assessments, net of allowance of \$120,540	1,526,059
Water service and delinquency charges, net of allowance of \$168,000	305,446
Governmental contracts	1,968,465
Capital and operating grants	1,160,534
Employees and Board members	6,577
Other	26,942
Prepaid expenses	96,141
Material and supply inventories, at cost	859,794
Contract receivable from US Army Corps of Engineers, due after one year	695,659
Capital assets:	
Land	457,172
Depreciable property, equipment, and infrastructure, net of accumulated depreciation	12,456,461
Construction in progress	<u>1,054,273</u>
Total assets	<u>46,344,929</u>
Liabilities	
Vouchers payable	480,194
Accrued payroll and related benefits payable	333,901
Other liabilities	72,908
Grant advance	12,875
Obligation for postemployment benefits, payable after one year	358,367
Accrued compensated absences:	
Payable within one year	412,745
Payable after one year	306,846
Obligations under capital lease:	
Portion due within one year	52,521
Portion due after one year	<u>4,388</u>
Total liabilities	<u>2,034,745</u>
Net assets	
Invested in capital assets, net of related debt	13,910,997
Unrestricted	<u>30,399,187</u>
Total net assets	\$ <u>44,310,184</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	<u>Governmental Activities</u>
Program Expenses	
Public Works:	
Personnel services	\$ 6,590,135
Employee benefits	2,648,485
Contractual operating and maintenance services	594,104
Field expenses	2,211,173
General and administrative expenses	1,807,399
Depreciation	983,364
Interest	320
Internal costs capitalized	<u>(152,661)</u>
Total program expenses	<u>14,682,319</u>
Program revenues	
Charges for services:	
Water use settlement	1,012,500
Water service assessments	1,572,359
Contracts with governmental entities	2,017,154
Other revenue	152,152
Capital grant	1,148,678
Operating grants	<u>131,405</u>
Total program revenues	<u>6,034,248</u>
Net program expense	(8,648,071)
General revenues	
Ad valorem assessments	11,236,311
Delinquency charges	176,213
Interest	1,031,882
Loss on equipment and property removal	(3,040)
Water bank leases	<u>43,748</u>
Total general revenues	<u>12,485,114</u>
Increase in net assets	3,837,043
Net assets, beginning of year, as previously reported	40,099,574
Restatement	<u>373,567</u>
Net assets, beginning of year, as restated	<u>40,473,141</u>
Net assets, end of year	\$ <u>44,310,184</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,113,953	\$ 718,952	\$ 1,832,905
Investments	17,245,130	6,609,000	23,854,130
Current receivables, net:			
Interest	44,371	-	44,371
Ad valorem assessments, net of allowance of \$120,540	1,526,059	-	1,526,059
Water service and delinquency charges, net of allowance of \$168,000	305,446	-	305,446
Governmental entities	1,968,465	-	1,968,465
Capital and operating grants	1,160,534	-	1,160,534
Employees and Board members	6,577	-	6,577
Other	25,509	1,433	26,942
Prepaid expenses	96,141	-	96,141
Material and supply inventories, at cost	859,794	-	859,794
Contract receivable from US Army Corps of Engineers, due after one year	<u>695,659</u>	<u>-</u>	<u>695,659</u>
 Total assets	 <u>\$ 25,047,638</u>	 <u>\$ 7,329,385</u>	 <u>\$ 32,377,023</u>
 Liabilities and fund balances			
Liabilities			
Vouchers payable	\$ 480,194	\$ -	\$ 480,194
Accrued payroll and related benefits payable	333,901	-	333,901
Other liabilities	72,908	-	72,908
Grant advance	12,875	-	12,875
Deferred revenue	<u>5,111,139</u>	<u>-</u>	<u>5,111,139</u>
 Total liabilities	 <u>6,011,017</u>	 <u>-</u>	 <u>6,011,017</u>
 Fund balances			
Reserved for inventories and prepaid expenses	955,935	-	955,935
Reserved for encumbrances	1,043,646	-	1,043,646
Unreserved:			
Designated for endowment	-	7,112,960	7,112,960
Designated for subsequent years expenditures	7,674,887	-	7,674,887
Designated for general budget reserve	1,934,365	-	1,934,365
Undesignated	<u>7,427,788</u>	<u>216,425</u>	<u>7,644,213</u>
 Total fund balances	 <u>19,036,621</u>	 <u>7,329,385</u>	 <u>26,366,006</u>
 Total liabilities and fund balances	 <u>\$ 25,047,638</u>	 <u>\$ 7,329,385</u>	 <u>\$ 32,377,023</u>
See accompanying notes to financial statements			

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2008

Total fund balances (Balance sheet)	\$ 26,366,006
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	13,967,906
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.	5,111,139
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Obligations under capital lease	\$ (56,909)
Accrued compensated absences	(719,591)
Obligation for postemployment benefits	(<u>358,367</u>)
Total liabilities	(<u>1,134,867</u>)
Total net assets (Statement of net assets)	\$ <u>44,310,184</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem assessments	\$ 11,147,745	\$ -	\$ 11,147,745
Water service assessments	1,626,570	-	1,626,570
Delinquency charges	176,213	-	176,213
Interest	1,013,278	18,604	1,031,882
Contracts with governmental entities	1,382,543	-	1,382,543
Capital grant	285,841	-	285,841
Operating grants	105,809	-	105,809
Water bank leases	-	43,748	43,748
Water use settlement	1,012,500	-	1,012,500
Other	<u>186,265</u>	<u>-</u>	<u>186,265</u>
 Total revenues	 <u>16,936,764</u>	 <u>62,352</u>	 <u>16,999,118</u>
Expenditures			
Public works:			
Current operations	13,421,756	-	13,421,756
Capital outlays	4,872,160	-	4,872,160
Debt service:			
Obligations under capital lease:			
Principal	107,807	-	107,807
Interest	<u>320</u>	<u>-</u>	<u>320</u>
 Total expenditures	 <u>18,402,043</u>	 <u>-</u>	 <u>18,402,043</u>
 Increase (decrease) in fund balances	 (1,465,279)	 62,352	 (1,402,927)
 Fund balances, beginning of year	 <u>20,501,900</u>	 <u>7,267,033</u>	 <u>27,768,933</u>
 Fund balances, end of year	 <u>\$ 19,036,621</u>	 <u>\$ 7,329,385</u>	 <u>\$ 26,366,006</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

Decrease in fund balances (Statement of revenues, expenditures and changes in fund balances)	\$(1,402,927)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures, while in the statement of activities the cost of these assets is capitalized.	5,024,821
Governmental funds do not report depreciation expense which is recorded in the statement of activities.	(983,364)
In the statement of activities, cost of assets disposed is included, whereas in the governmental funds the proceeds from asset dispositions are included. Thus, the change in net assets differs from the change in fund balance by the net book value of assets disposed.	(20,654)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, net of prior year effect (as restated).	1,540,900
Governmental funds do not report the net change in compensated absences.	(71,173)
Governmental funds report the repayment of capital lease obligations.	107,807
Governmental funds do not report obligation for other postemployment benefits.	(358,367)
Increase in net assets (Statement of activities)	\$ <u>3,837,043</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Revenues				
Ad valorem assessments	\$ 9,590,361	\$ 9,590,361	\$ 11,147,745	\$ 1,557,384
Water service assessments	1,697,000	1,697,000	1,626,570	(70,430)
Delinquency charges	95,000	95,000	176,213	81,213
Interest revenue	975,000	975,000	1,013,278	38,278
Contracts with governmental entities	1,559,824	1,559,824	1,382,543	(177,281)
Operating and capital grants	818,525	818,525	391,650	(426,875)
Other	<u>135,300</u>	<u>135,300</u>	<u>1,198,765</u>	<u>1,063,465</u>
Total revenues	<u>14,871,010</u>	<u>14,871,010</u>	<u>16,936,764</u>	<u>2,065,754</u>
Expenditures				
Current operations				
Personnel services	7,470,599	7,470,599	6,518,962	951,637
Employee benefits	2,497,567	2,497,567	2,290,118	207,449
Contractual operating and maintenance services	606,845	606,845	594,104	12,741
Field expenses	2,712,834	2,712,834	2,160,389	552,445
General and administration expense	3,557,865	3,557,865	2,367,311	1,190,554
Capital outlays	<u>1,525,300</u>	<u>1,525,300</u>	<u>4,865,508</u>	<u>(3,340,208)</u>
Total expenditures	<u>18,371,010</u>	<u>18,371,010</u>	<u>18,796,392</u>	<u>(425,382)</u>
 Excess expenditures over revenues	 \$ (<u>3,500,000</u>)	 \$ (<u>3,500,000</u>)	 \$ (<u>1,859,628</u>)	 \$ <u>1,640,372</u>
 Prior year fund balance budget basis	 \$ <u>19,852,604</u>			

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(1) Organization

The Middle Rio Grande Conservancy District (District) was created in 1923 under the provisions of the Conservancy Act of New Mexico for the purpose of maintaining flood protection, river control, drainage, and water storage for supplementing irrigation needs, constructing and maintaining a distribution system for irrigation and other improvements for public health, safety, convenience and welfare. The District is a political subdivision of the State of New Mexico and a body corporate with all the powers of a public or municipal corporation and operated under an elected Board of Directors.

(2) Summary of Significant Accounting Policies

The accompanying financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). These statements include:

- Presentation of management's discussion and analysis (MD&A) which provides an analysis of the District's overall financial position and results of operations.
- Presentation of financial statements prepared using full accrual accounting for all District activities including reporting capital assets and related depreciation.

Other significant accounting policies of the District are discussed below.

(a) Reporting Entity

The District's basic financial statements include the accounts of all District operations which are financially accountable to the Board of Directors. The District has no component units.

(b) Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information based on the District as a whole.

The statement of net assets incorporates long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets net of related debt; restricted net assets (none held at June 30, 2008), and unrestricted net assets.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(2) Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

The statement of activities indicates the degree to which the direct expenses of a given function are offset by program revenues. Gross expenses (including depreciation) are reduced by program revenues directly associated with the functions. Program revenues include: (1) water service assessments to property owners who have irrigation access, (2) contract revenue from governmental entities to finance maintenance of District infrastructure, and (3) operating and capital grants which finance specific operating and construction activities. The year ended June 30, 2008 includes a one time water use settlement fee.

The net cost (by function) is normally covered by general revenues (ad valorem assessments, delinquency charges, interest revenue, and other gains and losses). The District does not currently employ indirect cost allocation systems.

Separate fund financial statements provide reports on the financial condition and results of operations for major individual funds. The District's activities are all governmental activities and the District did not have proprietary or fiduciary funds during the year ended June 30, 2008. There are no nonmajor funds.

The fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed appropriate to (1) demonstrate legal compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the District's actual experience conforms to the budget plan. Since the fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliations are presented which briefly explain the differences between the fund financial statements and the government-wide financial statements.

(c) Fund Accounting

The financial activities of the District are recorded in individual funds, each which is considered to be a separate accounting entity with a self-balancing set of accounts. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's financial activities have been classified into the following governmental funds:

- General Fund – This fund is the operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund.
- Special Revenue Fund – This fund accounts for the receipt of monies from the sale of District land and the administration of District water bank leases. Withdrawals are limited to the direct expenses associated with the sale of land.

(d) Basis of Accounting

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(2) Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

The fund financial statements are presented using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Ad valorem assessments, water service assessments, and contract revenue from governmental entities are considered available if they are collected within thirty days of the current fiscal year end. Interest revenue is considered available when earned. Grant revenue is considered available when grant requirements have been met. Delinquency charges and other revenue are generally considered measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' annual leave is recorded when paid.
- Capital lease expenditures are recorded when payment is due.
- Other post employment benefits are recorded when paid.

(e) Inventories

Inventories consist of expendable supplies and repair parts. Inventories are valued on an average cost basis. The cost of supplies and repair parts is recorded as an expense/expenditure when the items are used.

(f) Capital Assets

Capital assets, which include property, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the District as assets which have a cost of \$5,000 or more at the date of acquisition. Infrastructure is defined by the District as long-lived capital assets that are normally stationary in nature such as dams, canals, laterals, acequias, waste ways, levees, and riverside and interior drains having a cost of \$100,000 or more and a useful life of 50 years or more. Capital assets purchased, constructed or acquired are carried at historical cost or estimated historical cost. The District capitalizes purchased software and has no internally developed software. Donated capital assets are recorded at the fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs are expensed as incurred.

The majority of the District's infrastructure was constructed or acquired prior to July 1, 1980, and in accordance with GASB 34, has not been valued. Infrastructure which was built and improved since July 1, 2002 has been capitalized. The District has determined that no infrastructure which meets the District's definition was purchased, constructed or acquired from July 1, 1980 to July 1, 2002.

Infrastructure construction in progress represents projects for which expenditures have occurred, but which have not been placed in service.

The District's capital assets include land associated with infrastructure assets. The land underneath and around all major facilities has been recorded at estimated historical cost. The District has been granted easements for right-of-way associated with some of their waterways, which have been recorded at estimated historical costs.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(2) Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

As further described in Note 12 to the financial statements, pursuant to a U.S. District Court ruling, the District does not have title to certain infrastructure assets and related land. The facts of the ruling could apply to other District infrastructure and related land.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The District estimates the useful lives of capital assets as follows:

Buildings and improvements	50 years
Office furniture and equipment	5-10 years
Engineering equipment	10 years
Communication equipment	10 years
Motor vehicles and trailers	6-10 years
Weed and pest control equipment	5-10 years
Heavy field equipment	15 years
Shop and field equipment	10 years
Infrastructure	20-50 years

(g) Compensated Absences

Qualified employees are entitled to accumulate annual leave which is payable to the employee upon termination or retirement. Employees earn annual leave at the rate of twelve days per year for the first five years of service, eighteen days per year for service of five to twenty years, and twenty four days per year for over twenty years of service. The maximum accrual of annual leave is 240 hours unless approved by the District's Chief Engineer. At June 30, 2008, accrued vested annual leave totaled \$468,725.

Qualified employees are entitled to accumulate sick leave, which may be converted upon retirement or termination to annual leave. Employees earn sick leave at the rate of twelve days per year. Employees who have twenty years of service and who are eligible for the Public Employee's Retirement Act benefits may convert sick leave to annual leave at the rate of three for two. Otherwise, sick leave hours in excess of 250 hours may be converted to annual leave hours at the rate of three for one. Sick leave hours in excess of 500 hours may be converted to annual leave hours at the rate of two for one. Sick leave hours in excess of 800 hours may be converted to annual leave hours at the rate of three for two. At June 30, 2008, accrued vested sick leave totaled \$243,554.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2008, accrued vested compensatory leave totaled \$7,312.

The government-wide financial statements present the cost of accumulated annual leave, sick leave, and compensatory time as a liability, valued at the current rate of pay.

(h) Other Postemployment Benefits

As further described in Note 11 to the financial statements, the District provides postemployment benefits (OPEB) to qualifying employees upon their retirement. During the year ending June 30, 2008, the District adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement provides for prospective implementation.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(2) Summary of Significant Accounting Policies (continued)

(i) Deferred Compensation Plan

Employees may elect to participate in a noncontributory deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan is available to all employees, who may defer up to 25% of gross compensation, subject to Internal Revenue Code limits. The employees make contributions to the plan through payroll withholdings. All contributions withheld from participants by the District are paid to a third party who administers the plan.

(j) Capital Lease Obligations

Capital lease obligations and the assets acquired under capital leases are presented in the government-wide financial statements. The capital lease obligations are stated at the original fair market value of leased assets capitalized, less payments since inception of the lease, discounted at the implicit rate of interest in the lease.

In the year in which an asset is acquired by capital lease, the expenditure for the asset and the offsetting amount of the financing source are reflected in the fund financial statements. In subsequent years, payments made on capital leases are reported as expenditures in the fund financial statements.

(k) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss, including workers' compensation insurance. Settled claims, excluding insurance deductibles, resulting from these risks have not exceeded commercial insurance coverage during the years ended June 30, 2008 and 2007. During the year ended June 30, 2006, settled claim costs exceeded insurance coverage by \$90,000.

(l) Fund Balance Reserves and Designations

- General Fund – The fund financial statements present fund balance reserves for those portions of fund balance not available for appropriation and/or expenditure or legally segregated for a specific future use. The reserve for related assets such as inventories and prepayments is an example of the former and the reserve for encumbrances is an example of the latter.

The designation of fund balance reflects tentative plans for the future use of financial resources. The District has designated the amount necessary to balance the budget for the year ending June 30, 2009 for subsequent year expenditures. In accordance with state budget guidance, the District has designated an amount equal to 1/12 of budgeted expenditures for the year ending June 30, 2009 for general budget reserve.

- Special Revenue Fund - The District has designated funds received from the sale of land to form an endowment for the District.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(2) Summary of Significant Accounting Policies (continued)

(m) 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 employed as an extension of formal budgetary integration in the general fund. Encumbrances outstanding at year-end are reported as reservation of fund balance since they do not constitute expenditures or liabilities.

(n) Budgets and Budgetary Accounting

The District follows defined procedures in establishing the budgetary data reflected in the budgetary comparison schedule. Each year the District determines amounts required for maintenance and operation expenditures. Based on that determination, the mill rate (for ad valorem assessments) and per acre rate (for water service assessments) are determined to bring expected revenues up to expected expenditures. The District submits a proposed budget for the general fund to its Board of Directors and to the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) for the fiscal year commencing the following July 1. DFA must approve the budget prior to its legal enactment. The District does not prepare a budget for the special revenue fund.

Expenditures of the general fund may not legally exceed the budget. Adjustments to the budget must be submitted to and approved by DFA in the form of a "budget adjustment request". The budget is prepared on a basis which differs from GAAP. Expenditures related to current year capital lease acquisitions and the related financing source are not included. The budget includes encumbrances as expenditures. Since the budgetary basis differs from GAAP, budget and actual amounts in the accompanying budgetary comparison schedule are presented on the budgetary basis.

All budget appropriations, except for those amounts encumbered, lapse at year end.

(o) Use of Estimates

The preparation of the District's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and of revenues and expenditures during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(3) Stewardship, Compliance and Accountability

For the year ended June 30, 2008, general fund budgeted expenditures exceeded budgeted revenues by \$3,500,000. Prior year cash and investment balances of the general fund were used to complete the budget process. During the year ended June 30, 2008, the District overspent their approved budget by \$425,382 violating New Mexico State Statute.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(4) Cash and Cash Equivalents

Cash and cash equivalents represents bank accounts and repurchase agreements.

The District is authorized to deposit its money in banks, savings and loan associations or credit unions whose accounts are insured by an agency of the United States Government. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year.

The District is authorized to invest its money in contracts with banks, savings and loan associations or credit unions for the purchase and resale of specific securities (repurchase agreements). Money invested in repurchase agreements is required to be fully secured by obligations of the United States or other securities backed by the United States having a market value of at least 102% of the repurchase contract.

Custodial credit risk is the risk that in the event of bank failure the District's deposit may not be returned. Deposits are exposed to custodial risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized by securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the District's name.

At June 30, 2008, the carrying amount of the District's cash deposits was \$1,163,723 and the bank balance on these accounts was \$1,224,861. Funds in the amount of \$1,024,861 were exposed to custodial risk due to being uninsured and collateralized with securities held by the banks' trust departments not in the District's name.

Daily, surplus funds are used to purchase an undivided fractional interest in the principal amount of government securities and the following day resold with an interest factor. At June 30, 2008, the carrying amount of the District's repurchase agreement was \$668,282. The fair market value of the purchased federal agency securities amounted to \$681,648. The carrying amount of the repurchase agreement is subject to custodial credit risk as purchased securities are held by the counterparty's agent not in the District's name.

(5) Investments

The District does not have a formal investment policy that addresses investment interest rate and credit risks.

The District's investments at June 30, 2008 consist of two accounts in the New Mexico State Treasurer's Local Government Investment Pool (Pool). Participation in the Pool is voluntary. The investments are stated at fair value (\$23,854,130) based on quoted market prices as of June 30, 2008. The Pool was established in 1991 as a short-term investment fund and is not registered with the SEC. The State Treasurer, with advice and consent of the State Board of Finance is authorized to invest the short-term investment funds in accordance with sections 6-10-10 I through P and sections 6-10-10.1 A and E, NMSA 1978. The Pool does not have unit shares. Per Section 6-10-10.1F, NM 1978, at the end of each month all interest earned by the Pool is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the Pool and the length of time the amounts in the Pool were invested.

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment in the Pool is subject to credit risk. The Pool is rated AAA by Standard and Poor's.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(5) Investments (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The prices of securities fluctuate with market interest rates and securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is the key determinant of the tolerance of the investments to rising interest rates. In general, the longer the WAM, the more susceptible the investments are to rising interest rates. At June 30, 2008, the Pool's WAM is 46 days.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2008, the Pool has no foreign currency risk, as all investments in the Pool are in U. S. dollar-denominated assets.

The District records the interest earned by the special revenue fund's investment in the Pool in the general fund. The interest earned was \$281,192 for the year ended June 30, 2008.

As of September 30, 2008, the Pool was still rated AAA by Standard & Poor's and the Pool's WAM had decreased to 19 days.

(6) Water Service and Ad Valorem Assessments

Water service assessments and ad valorem assessments are levied each calendar year on November 1, based on serviceable, irrigatable acreage, as determined by the District, and taxable property valuations as determined by the four county assessors within the District boundaries, respectively. Water service and ad valorem assessments are due in two equal installments on December 1 and May 1 following the levy, after which they become delinquent. At June 30, 2008, all receivables for water service and ad valorem assessments are delinquent. It has been the District's experience that a significant portion of the receivables for water service and ad valorem assessments may not be collected within one year. Lien rights are available to the District on all delinquent water service and ad valorem assessments. The District computes allowances on water service and delinquency charges receivable and ad valorem assessments receivable based on management's determination of balances it believes will be uncollectible.

In the government-wide financial statements, water service and ad valorem assessments are recorded as a receivable and revenue when billed to taxpayers. In the fund financial statements, water service assessments collected by the District and ad valorem assessments remitted by the county assessors to the District within thirty days following year end are recorded as revenue; all water service and ad valorem assessments not collected or remitted within thirty days following year end are reported as deferred revenue. For the year ending June 30, 2008, water service assessments were assessed and levied at a uniform rate per acre of \$28.00 based on acreage approximating 56,374 acres. Ad valorem assessments were assessed and levied at a rate of \$3.97 per \$1,000 of valuation of residential property and \$4.96 per \$1,000 valuation of nonresidential property based on valuations determined by the county assessors. Valuations for current and prior years are continually being modified pursuant to present laws, rules and regulations.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(7) Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance June 30, <u>2007</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2008</u>
Capital assets:				
Land	\$ 457,172	\$ -	\$ -	\$ 457,172
Buildings and improvements	2,965,930	5,421	-	2,971,351
Office furniture and equipment	973,930	7,970	-	981,900
Engineering equipment	53,280	-	-	53,280
Communication equipment	14,896	-	-	14,896
Motor vehicles and trailers	4,902,495	881,624	-	5,784,119
Weed and pest control equipment	287,150	29,579	-	316,729
Heavy field equipment	7,037,392	692,961	47,663	7,682,690
Shop and field equipment	160,986	5,855	-	166,841
Infrastructure	3,425,476	2,347,138	-	5,772,614
Construction in progress	-	<u>1,054,273</u>	-	<u>1,054,273</u>
Total capital assets	<u>20,278,707</u>	<u>5,024,821</u>	<u>47,663</u>	<u>25,255,865</u>
Less accumulated depreciation:				
Buildings and improvements	960,963	61,640	-	1,022,603
Office furniture and equipment	751,276	72,564	-	823,840
Engineering equipment	49,514	1,187	-	50,701
Communication equipment	12,783	291	-	13,074
Motor vehicles and trailers	4,221,988	286,361	-	4,508,349
Weed and pest control equipment	262,012	10,227	-	272,239
Heavy field equipment	3,781,848	391,958	27,009	4,146,797
Shop and field equipment	117,002	7,740	-	124,742
Infrastructure	<u>174,218</u>	<u>151,396</u>	-	<u>325,614</u>
Total accumulated depreciation	<u>10,331,604</u>	<u>983,364</u>	<u>27,009</u>	<u>11,287,959</u>
Capital assets, net	\$ <u>9,947,103</u>	\$ <u>4,041,457</u>	\$ <u>20,654</u>	\$ <u>13,967,906</u>

(8) Deferred Revenue

As described in Note 2(d) to the financial statements, receivables which are not considered available are recorded as deferred revenue in the fund financial statements. Deferred revenue at June 30, 2008 is attributable to the following receivables:

Ad valorem assessments	\$ 1,269,898
Water service and delinquency charges	290,684
Governmental contracts	2,662,124
Capital and operating grants	<u>888,433</u>
	\$ <u>5,111,139</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(9) Long-Term Liabilities

(a) Obligations Under Capital Leases

The District has acquired certain heavy equipment under capital lease agreements. Title to the equipment rests with the District upon inception of the lease. The lessor retains a security interest in the equipment during the term of the lease agreement. The agreement contains clauses regarding sources of funding for the monthly payments as well as a non-appropriation clause which can terminate the lease. These agreements have been treated as capital leases as they are considered to transfer the benefits and risks of ownership of the equipment to the District.

As of June 30, 2008 there is only one outstanding capital lease. The original lease term was for 60 payments, and the interest rate is 4.48%. Terms of the agreement requires monthly payments of \$4,405.

The following is a summary of changes in capital lease obligations for the year ended June 30, 2008:

<u>Obligations Under Capital Lease</u>	<u>Balance June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Portions due within one year	\$ 102,123	\$ 52,521	\$ 102,123	\$ 52,521
Portions due after one year	<u>62,593</u>	<u>-</u>	<u>58,205</u>	<u>4,388</u>
	<u>\$ 164,716</u>	<u>\$ 52,521</u>	<u>\$ 160,328</u>	<u>\$ 56,909</u>

As of June 30, 2008, the cost of equipment acquired under the outstanding capital lease is \$236,384 with \$59,940 of accumulated depreciation.

The following is a schedule of the future minimum lease payments under the capital lease as of June 30, 2008.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 52,521	\$ 337
2010	<u>4,388</u>	<u>16</u>
Total minimum lease payments	<u>\$ 56,909</u>	<u>\$ 353</u>

(b) Accrued Compensated Absences

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2008:

<u>Balance June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Compensated absences payable			
Payable within one year	\$ 394,517	\$ 925,201	\$ 906,973
Payable after one year	<u>253,901</u>	<u>52,945</u>	<u>-</u>
	<u>\$ 648,418</u>	<u>\$ 978,146</u>	<u>\$ 719,591</u>

The general fund has been used to liquidate obligations under capital lease and accrued compensated absences.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(10) Retirement Plan

(a) Plan Description

Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

(b) Funding Policy

Plan members are required to contribute 3.2875% of their gross salary. (The District pays 75% of the employee contribution rate of 13.15%). The District is required to contribute 19.0125% of the plan member's gross salary. The contribution requirements of plan members and the District are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ending June 30, 2008, 2007, and 2006 were \$1,227,458, \$1,140,639, and \$1,110,828, respectively, which equal the amount of the required contributions for each fiscal year.

(11) Other Postemployment Benefits

(a) Plan Description

The District has adopted a policy whereby the District will contribute to the cost of the premium for health and dental insurance coverage for eligible retirees and their eligible dependents until such time as the retiree is eligible for Medicare coverage. The retirees are responsible for obtaining their own health and dental insurance coverage. The District's policy constitutes a single-employer defined benefit healthcare plan. During the year ending June 30, 2008, the District's contribution was 60% of the cost. Effective July 1, 2008, the District has increased its contribution to 80%.

Eligible retirees are those who have retired from the District through normal retirement or disability and do not qualify for Medicare. Upon the death of an eligible retiree, his or her spouse and eligible dependents who do not qualify for Medicare are eligible for the benefit with the same terms and conditions. As of June 30, 2008 and 2007, respectively, there were nineteen and twenty retirees receiving benefits.

(b) Funding Policy

Costs of the plan are financed on a pay-as-you-go basis. For the year ended June 30, 2008, the District contributed \$76,714 under the plan.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(11) Other Postemployment Benefits (continued)

(c) Annual Expense and Net Obligation

The District's annual OPEB expense is calculated based on its annual required contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the District's OPEB expense for the year ending June 30, 2008 and changes in the obligation.

Annual required contribution	\$ 435,081
Contributions made from general fund	(76,714)
Increase in obligation	358,367
Obligation, beginning of year	-
Obligation, end of year	\$ <u>358,367</u>

(d) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008 is as follows. The actuarial accrued liability (AAL) of \$4,564,597 is equal to the unfunded actuarial accrued liability (UAAL) as the plan has no assets. The funded ratio is 0%.

Covered payroll for the year ending June 30, 2008 is \$6,358,723. UAAL is 72% of covered payroll.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the District and plan members and include the types of benefits provided at the time of the actuarial valuation and the sharing of benefit costs between the District and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the AAL, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after five years. The District's UAAL is being amortized using the level dollar, open amortization method. The remaining amortization period at June 30, 2008 is 29 years.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(12) Contingencies

(a) Silvery Minnow

The District is party to a number of lawsuits regarding protection of the silvery minnow, a fish which is native to the Rio Grande river habitat and an endangered species, by various groups supporting the environment. These actions were in regards to the U. S. government agencies' obligations and authorities to provide protection for the silvery minnow including river flow to accommodate their existence. The U. S. District Court for New Mexico has ruled that the federal Bureau of Reclamation has discretion to reduce deliveries of certain available water under its contracts with the District to comply with the Endangered Species Act. The ruling has been appealed to the 10th Circuit Court of Appeals. Oral arguments were presented in March, 2007 to the Appeals Court, and the parties are currently awaiting the Court's ruling. Currently, all parties to these proceedings are abiding by the existing ten year biological opinion issued by the U. S. Fish and Wildlife Service. The river flow requirements of the biological opinion to accommodate the silvery minnows continued existence have been met during the existing and previous irrigation seasons. It is the expectation of the District that the requirements of the biological opinion and operating practices to accommodate those requirements will not significantly impact the future operations of the District.

(b) Title Claim

A matter that arose from the silvery minnow case resulted in the U. S. government intervening on a quiet title suit brought by the District to establish ownership to all District facilities, including dams, canals, drains, bosque areas and all structures within District boundaries. The U. S. government did not counter claim to establish ownership. The government contends that a contract signed in 1951 by the District and the federal Bureau of Reclamation whereby the Bureau agreed to significantly rehabilitate District facilities and provide ongoing maintenance, gave title to the U. S. government. The costs of rehabilitating the District's facilities were repaid to the Bureau by the District in prior years. It is the District's position that it granted an assignment of easement to the Bureau to operate on District property in order to accomplish the purpose of the contract, but did not grant ownership.

In July, 2005 the U.S. District Court ruled that ownership of certain specific significant District structures and land tracts resided with the U.S. government and that title could be reconvened only with U.S. congressional action. The Court additionally ruled that the United States Government has discretion to consult regarding the District's works and water rights. The ruling has been appealed to the 10th Circuit Court of Appeals. Oral arguments were presented in March, 2007 to the Appeals Court, and the parties are currently awaiting the Court's ruling.

The practical operating effect of the title case in the short term is not expected to be significant. Since 1985, U. S. government actions have been as a security interest holder and it has cooperated with the District with no compelling unilateral action. The District believes this scenario will continue at least through the appeal period or until congress acts to return title to the District. Were actions to change, such action could significantly impact operations of the District.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(12) Contingencies (continued)

Within the accompanying financial statements, the impact of the ruling could be significant. The District has valued the above properties and other infrastructure land at approximately \$325,000. In addition, the District has capitalized infrastructure in the amount of \$5,772,614, of which \$2,347,138 was capitalized in the year ending June 30, 2008. If all property title was to rest with the U.S. Government such recorded property value would be overstated. The District has also established a designated endowment fund which holds \$7,112,960 of funds at year end generated from sales of District property. Such funds could be subject to title claims. In addition, the District has a revenue contract generating approximately \$60,000 annually which also could be subject to these title claims. The District financial statement presentation assumes all title issues will be resolved in the District favor.

(13) Budgetary Basis to GAAP Basis Reconciliation

The reconciliation from the budgetary basis of accounting to the GAAP basis of accounting for the year ended June 30, 2008 is as follows:

	<u>General Fund</u>
Excess of expenditures over revenues on a non-GAAP budgetary basis	\$ (1,859,628)
Prior year encumbrances	(649,297)
Current year encumbrances	<u>1,043,646</u>
 Excess of expenditures over revenues on a GAAP basis	 \$ <u>(1,465,279)</u>

(14) Commitments

(a) Water 2025

In September, 2004, the District entered into a cooperative assistance agreement the U.S. Department of the Interior, Bureau of Reclamation. The agreement and subsequent modifications provides for the District to receive federal funds derived from the Western Water Initiative to fund Water 2025: Preventing Crises and Conflict in the West (Water 2025) projects. Eligible projects under Water 2025 include District construction of irrigation structures to improve operations and water management to provide for more efficient use of existing water supplies. The agreement extends to December 30, 2009. The agreement, as modified, provides for total funding of \$6,465,850 with the District obligated to provide 50% cost share. During the year ended June 30, 2008, the District recognized \$1,148,678 of capital grant revenue from this agreement in its statement of activities. \$862,837 of this revenue is deferred in the District's fund financial statements. The District has cumulatively accounted for \$2,585,346 of federal funding and \$2,520,478 of cost share through June 30, 2008.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(14) Commitments (continued)

(b) Albuquerque West Levee

In October, 2007, the District entered into an agreement with the U. S. Department of the Army (government) under which the District will design and construct improvements to the Albuquerque west levee (levee) which will enable the levee to be certified by the U. S. Army Corps of Engineers. As of the date of the agreement, the estimated cost of design and construction (project cost) was \$6 million, currently, the District estimates the total cost to be in the range of \$6 to \$7 million. The estimated federal government share is 75% of the total cost and is to be reimbursed with funds pursuant to Section 593 of the Water Resources Development Act of 1999, Public Law 106-53, as amended. It is expected that the federal government share of funds will be appropriated over a number of budget years subsequent to June 30, 2009.

In December, 2007, the District entered into an agreement with the Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA) and the County of Bernalillo (County), whereby AMAFCA and County will each provide \$1 million of the original estimated \$6 million project cost. The agreement states that the District, AMAFCA, and the County will negotiate in good faith for additional contributions to fund the project costs in excess of the original estimate. At such time as the District is reimbursed by the federal government for the federal share of the project cost, AMAFCA and County will receive a pro rata share of the reimbursement.

As of June 30, 2008, the District has recorded capital expenditures of \$927,545 in connection with the design phase of the project. The District has recognized a receivable and contract revenue of \$695,659 in the statement of activities, representing the federal government's 75% cost share as of June 30, 2008. The revenue is deferred in the District's fund financial statements. The District has recognized a receivable and contract revenue of \$77,295 in the statement of activities, representing AMAFCA's and the County's net share of the project costs as of June 30, 2008. The revenue is deferred in the District's fund financial statements.

Subsequent to June 30, 2008, the design phase of the project was completed, and the District is evaluating bids for the construction phase of the project. The District anticipates the project concluding in the year ending June 30, 2009.

(c) Bosque Revitalization @ Route 66

In July, 2008 the District entered into a project cooperation agreement with the U. S. Department of the Army (federal government) under which the federal government will perform certain work related to the environmental revitalization of the Bosque. The federal government will perform work related to improving and restoring the ecosystem and construction recreational features. The District agreed to contribute 25% of the cost of ecosystem restoration and 50% of the recreation cost. The estimated total cost of the ecosystem restoration is \$6,056,000 and the estimated total recreation cost is \$604,000. The District's total cost share is estimated at \$1,816,000, with \$1,513,000 estimated to be met by in-kind work during the construction period, and cash share estimated at \$303,000. Subsequent to June 30, 2008, the District remitted \$303,000 to the federal government.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

(15) Net Asset Restatement

Effective July 1, 2007, the District changed its method of determining the timing of revenue recognition for a certain Bureau of Indian Affairs government contract. The current method was adopted because the District believes it will provide a more accurate reflection of when the contract revenue is earned. Previously, revenue was considered to be earned at the end of the contract period. Under the current method revenue is considered earned ratably over the contract period. The cumulative effect of the accounting change is reported as an increase of \$373,567 in net assets in the government-wide financial statements as of July 1, 2007.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH AND DENTAL INSURANCE PLAN
YEAR ENDED JUNE 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll $((b-a) / c)$
07/01/07	\$ -0-	\$ 4,564,597	\$ 4,564,597	0%	\$ 6,358,723	72%

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to termination, disability, morality and the time value of money to the accumulated plan benefits.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
JUNE 30, 2008

	<u>Special Revenue Fund</u>		<u>Total</u>
	<u>Water Bank Savings</u>	<u>Endowment Fund Savings</u>	
<u>Bank of America</u>			
Balance per books	\$ <u>214,992</u>	\$ <u>503,960</u>	\$ <u>718,952</u>
Balance per bank	\$ <u>214,992</u>	\$ <u>503,960</u>	\$ 718,952
Less: FDIC coverage			<u>100,000</u>
Total uninsured public funds			<u>618,952</u>
50% collateral requirement			309,476
Pledged securities			<u>1,125,300</u>
Over (under)			\$ <u>815,824</u>

Collateralized by FNMA issues as follows:

<u>Cusip #</u>	<u>Face Value</u>	<u>Interest Rate</u>	<u>Due</u>	<u>Collateral Value</u>
31385HP63	\$ 84,749	8.000%	05/01/2031	\$ 92,457
3185HQA3	14,608	7.500%	05/01/2016	15,324
31391YX28	42,661	7.605%	02/21/2029	44,065
31391YX36	504,184	7.816%	09/01/2027	517,017
31391YX44	229,723	7.614%	12/01/2027	233,934
31391YXX0	175,556	7.453%	03/01/2029	179,859
31391YXY8	18,403	7.542%	08/01/2029	18,909
Six similar securities				<u>23,735</u>
Collateral held by the Bank of New York, NY, NY.				\$ <u>1,125,300</u>

(continued)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
JUNE 30, 2008

	General Fund	
<u>Wells Fargo Bank NM, NA</u>		
Balance per books	\$ <u>444,771</u>	
Balance per bank	\$ <u>505,909</u>	\$ 505,909
Less: FDIC coverage		<u>100,000</u>
Total uninsured public funds		<u>405,909</u>
50% collateral requirement		202,954
Pledged securities		<u>525,521</u>
Over (under)		\$ <u>322,567</u>
Collateralized as follows:		
FNCL 867437, CUSIP #31409CV69, Face value \$518,934, 6.00%, Due 05/01/2036		\$ 524,894
FNCL 250031, CUSIP #31371EVY8, Face value \$591, 7.50%, Due 05/01/2024		<u>627</u>
Collateral held by Wells Fargo Bank California, San Francisco, CA		\$ <u>525,521</u>
<u>Wells Fargo Bank NM, NA, Repurchase Agreement</u>		
Balance per agreement		\$ 668,282
102% collateral requirement		681,648
Pledged securities		<u>681,648</u>
Over (under)		\$ <u>-</u>
Collateralized as follows:		
FNCL 961588, CUSIP #31414BXR6, Face value \$707,498, 5.00%, Due 02/01/2038		\$ <u>681,648</u>
Collateral held by Wells Fargo Bank California, San Francisco, CA		\$ <u>681,648</u>
Reconciliation to financial statements:		
Bank of America		\$ 718,952
Wells Fargo Bank, NM		1,113,053
Cash on hand		<u>900</u>
		\$ <u>1,832,905</u>

(concluded)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Federal Expenditures</u>
U. S. Department of Interior:			
Bureau of Reclamation:			
Water 2025	15.507		\$ 1,148,678
U. S. Fish and Wildlife Service:			
Fish and Wildlife Coordination Act	15.517		81,406
Bureau of Land Management:			
Passed Through Program From:			
New Mexico Association of Counties	15.228		<u>50,000</u>
Total U. S. Department of Interior			1,280,084
U.S. Department of Homeland Security:			
Passed Through Program From:			
New Mexico Department of Public Safety			
Disaster Grants -Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1659 DR-NM	17,846
U. S. Department of Defense:			
Department of the Army, Office of the Chief of Engineers:			
Water Resources Development Act of 1999, Section 593 program	12. Unknown		<u>695,659</u>
Total Expenditures of Federal Awards			\$ <u>1,993,589</u>

Notes to Schedule of Federal Awards

The above schedule of expenditures of federal awards includes the federal grant activity of the Middle Rio Grande Conservancy District. The information in this schedule is presented on the modified accrual basis of accounting.

Water 2025

The Middle Rio Grande Conservancy District has accounted for and reported \$2,520,478 of cumulative cost share through June 30, 2008 of which \$1,267,791 occurred in the year ending June 30, 2008.

During the year ended June 30, 2008, the District received in-kind funding in the amount of \$27,232 for certain studies conducted by the Bureau of Reclamation.

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

The Judges of the District Court of the
Second Judicial District of the
State of New Mexico
and
The Board of Directors of the
Middle Rio Grande Conservancy District
and
Mr. Hector H. Balderas, State Auditor

We have audited the accompanying financial statements of the governmental activities and each major fund of the Middle Rio Grande Conservancy District, State of New Mexico (District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 25, 2008. The report was qualified due to the impact on the financial statements as a result of a U.S. District Court ruling that certain reported District property is titled with the U. S. Government and due to the effects of adjustments, if any, as might have been determined to be necessary had we been able to confirm certain receivables from the Bureau of Indian Affairs. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 6-1, 6-3 and 8-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider items 6-1, 6-3 and 8-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards* paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 3-6, 4-1 and 7-4.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the New Mexico State Auditor, the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mackie, Reid & Company

Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
November 25, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS *Certified Public Accountants*
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Judges of the District Court of the
Second Judicial District of the
State of New Mexico
and
The Board of Directors of the
Middle Rio Grande Conservancy District
and
Mr. Hector H. Balderas, State Auditor

Compliance

We have audited the compliance of Middle Rio Grande Conservancy District, State of New Mexico (District), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the New Mexico State Auditor, the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mackie, Reid & Company
Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
November 25, 2008

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material Weaknesses identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes no

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X no

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Funding Source</u>
15.507	Water 2025	U.S. Department of Interior
12.unknown	Water Resources Development Act of 1999 Section 593 program	U.S. Department of Defense

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

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SECTION II – FINANCIAL STATEMENT FINDINGS

Prior Year Findings Reported Not Repeated

- 7-2 Damage Deposits
- 7-3 Revenue and Receivables

Prior Year Findings Modified and Repeated

- 3-6 Endowment Fund
- 4-1 Personnel Policy
- 6-1 Water Service Charge Assessments
- 6-3 Grant Agreement Match Documentation
- 7-4 Financial Reporting Software

Current Year Findings

- 8-1 Budget Violation

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Prior Year Findings Modified and Repeated

3-6/Endowment Fund

Condition

The District via board resolution in July 1992, established an endowment fund to receive deposits from the sale of District real property and such other sources as the governing body may direct. As of June 30, 2008, this fund has \$7,112,960. The purpose and operating governance of the fund was never created. The District invests their endowment fund with the New Mexico State Treasurer's Local Government Investment Pool (Pool), which invests in short-term investments.

If the District were to establish that the endowment fund will never be used for current operations or projects, then the investment of the endowment fund should consider a long term perspective possibly using the New Mexico State Investment Council as the investment manager. Over a long term period investment results could exceed the investment returns received today.

If the District were to establish that the endowment fund could or can be used for current projects (within one to five years) then the investment policy should be structured to accommodate such use.

Alternatively, the District could formalize the existing practice of segregating the endowment fund to provide the maximum current cash income returns with little or no investment risk.

The District has not yet stated the purpose of the endowment fund. This purpose should be established prior to committing funds to an investment structure that may require investment periods of five to ten years to earn desired long term investment rates. This investment period must coincide with governance purpose of the fund.

The District has investigated the New Mexico State Investment Council to be the investment manager for District Funds. In addition, the District adopted an investment policy on July 25, 2005. This policy includes an asset allocation strategy. The investment policy addressed both the general fund reserve and the board designated endowment fund of the District. The District has signed a required joint powers agreement with the State Investment Council to proceed.

General operating reserves of the District should require a different investment policy then those established for a long term endowment fund. The available life of such fund is inherently different and requires different tolerances for risk and investment structures.

As of June 30, 2008 the endowment fund and general fund investments in the Pool and interest rates were 2.4%. The average rate earned for fiscal year 2008 approximated 4.2%.

Criteria

The District has a fiduciary responsibility to maximize investment returns on those funds which are not needed for current operations. Investment strategies and vehicles should comply with state law and board policy.

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Prior Year Findings Modified and Repeated

3-6/Endowment Fund (continued)

Effect

Potential revenues may not have been maximized.

Cause

The District has not established the long term governance of the endowment fund. The stated purpose can then allow for an appropriate investment policy. The adopted investment policy does not distinguish between long term funds and excess operating funds.

Recommendation

The District should state the purpose of the endowment fund. From this purpose document the District should adopt a corresponding investment policy for the endowment fund. This policy should include approving types of investments allowed, tolerance for risk, and possibly providing for the assets to be professionally managed, thereby maximizing potential for higher rates of return. The existing adopted policy should coincide with the purpose of the endowment fund.

The District should also ensure that the investment policy adequately address the circumstances surrounding general operating reserves. These investment principles may differ significantly from the endowment fund.

Response

The District will establish the purpose of the Endowment Fund and will complete a transfer of \$4,000,000 from the Endowment Fund to the General Fund.

During fiscal year 2008, MRGCD signed an agreement with the US Army Corp of Engineers, Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA) and Bernalillo County to design, construct and certify the capability of the Albuquerque West Levee to provide flood protection to residents of Albuquerque's South Valley. Early estimates to design and construct the levee are between \$6,000,000 and \$7,000,000. MRGCD will be the lead agency on the project, will design and contract for the construction of the project and will have jurisdiction and maintenance responsibilities, at no cost to south valley residents. MRGCD has agreed to contribute \$4,000,000 towards completion of the project, with AMAFCA and Bernalillo County each contributing \$1,000,000. The MRGCD board of directors will be asked to transfer funds from the Endowment Fund to the General Fund to meet its obligation. Additionally, the board will be requested to address the purpose of the fund.

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Prior Year Findings Modified and Repeated

4-1/Personnel Policy

Criteria

The District has adopted a personnel policy whose purpose is to establish consistent, basic policies and practices concerning relations with its employees. Certain of these personnel policies were reviewed as part of our audit concerning payroll transactions.

Section 10 of the personnel policy, entitled Compensation and Benefits, establishes a compensation plan identifying salary ranges within a salary schedule which are appropriate to the District and comparable to other like employers. Salary increases for normal growth may be granted upon recommendation of department heads and approval of the Chief Engineer. Pay rate changes and approvals are documented with a personnel action form.

Condition

Payroll disbursements include instances where the rate of employee pay exceeded the maximum pay range for the applicable position grade in the salary schedule. In each instance, the pay rate had been approved through the completion of a properly prepared personnel action form.

Effect

Certain personnel policies and practices as noted have not been followed.

Cause

The established compensation plan of salary ranges does not in all instances address the length of employee tenure.

Recommendation

We recommend the District conclude its personnel policy revisions, including addressing pay rates which exceed pay ranges for long-term employees, and defining when and how such overages can occur.

Response

During fiscal year 2009, the MRGCD Board will be asked to reconsider its personnel policy revisions, including addressing pay rates which exceed pay ranges for all employees and define when and how such overages can occur.

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Prior Year Findings Modified and Repeated

6-1/ Water Service Charge Assessments

Condition

The dollar amount of delinquent water service charge assessments greater than four years old grew from \$152,597 at June 30, 2006 to \$171,727 at June 30, 2007 and \$177,491 at June 30, 2008. The trend has generally been an increase in these dollar amounts as well as the number of delinquent accounts. As of June 30, 2008, the total dollar amount of delinquent water service charged assessments amounted to \$473,446. As of June 30, 2008, the District provided an allowance of \$168,000 for uncollectible accounts.

Existing District rules provide that no water will be delivered to water users who are delinquent in payment of water service charge assessments. Pursuant to New Mexico state statute, water service charges constitute prior liens on the real property on which they are levied. The District also has a water service charge rule which governs irrigable versus non-irrigable land.

During the last fiscal year, the water assessment office has continued efforts to reduce the dollar amount of delinquent water service charge assessments as well as to reduce the number of delinquent accounts. These efforts included filing liens in certain circumstances, contacting delinquent property owners directly, and mailing annual delinquency letters. Following the reclassification hearing in September, 2008, the District removed from its books (effective June 30, 2008) delinquent water service charge assessments greater than four years old in the amount of \$26,756, and delinquent assessments less than four years old in the amount of \$28,542.

The District still has not adopted a comprehensive written policy which would provide guidance and direction to the water assessment office in addressing delinquent assessments. This includes both accounts which recently became delinquent and those which have been delinquent for a number of years.

Criteria

Good internal controls dictate that policies, procedures and practices exist which oversee monitoring and collection of delinquent water service charge assessments. The dollar amount and number of delinquent accounts should not increase due to lack of follow-up.

Effect

The reported balance of delinquent water service charge assessments maybe overstated. Absence of complete policies, practices and procedures may subject the District to loss of resources.

Cause

Consistent policies, practices and procedures have not been followed with respect to management of delinquent accounts.

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Prior Year Findings Modified and Repeated

6-1/ Water Service Charge Assessments (continued)

Recommendation

We recommend the District establish comprehensive written policies and procedures with respect to management of delinquent water service charge assessments. These policies and procedures should provide specific guidance to the water assessment office and address the varied circumstances which cause an account to become delinquent. We commend the present efforts made in pursuing resolution of delinquent accounts. These efforts should be part of the comprehensive written policies and procedures.

Response

With the assistance of legal counsel, comprehensive written policies, procedures and guidelines will be formulated to specifically address the management of delinquent water assessment charges.

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Prior Year Findings Modified and Repeated

6-3/ Grant Agreement Match Documentation

Condition

Grant agreements to which the District is party have match requirements whereby the District must account for the expenditures of District or other entity resources in accordance with the agreements. In a number of instances in prior year's the District has not completed the documentation process to account for match requirements. The grant agreements are as follows:

- 02-DG-11030300-003 Bosque fuel reduction study
- 03-FG-40-2109-85 Cottonwood snag study
- 05-FG-40-2436 Development of perennial silvery minnow at drain outfalls

Criteria

Non adherence to grant match requirements can place the District in violation of the respective grant agreement, subjecting the District to repayment of grant funds.

Effect

The District in some instances may not be in compliance with the agreement.

Cause

Emphasis has not been placed on grant match documentation requirements.

Recommendation

We recommend match documentation be completed in accordance with grant terms. If grant terms have not been complied with, we recommend the return to the grantor of applicable amounts.

Response

Accounting, with the assistance of the MRGCD Treasurer, will assist program managers in assuming greater responsibility in the administration and supervision of grant accounting. Program managers will maintain an accumulated accounting of all grant revenues earned and expenses incurred during the lifetime of their respective grant(s). Program managers will ensure adherence to all aspects of grant regulations and requirements including reimbursement and match requirements and documentation, as well as ensuring that grantor billing and grantee reimbursement occurs. Program managers will work closely with accounting staff to ensure that all grant documentation is current, accurate and timely posted to the general ledger and will ensure that general ledger activity is reconciled to the program manager's grant accounting records.

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Prior Year Findings Modified and Repeated

7-4/Financial Reporting Software

Condition

During the year ended June 30, 2005 the District signed a \$217,520 contract with a software vendor with the expectation of replacing the existing software used in the District's financial reporting processes. Through June 30, 2007, the District has paid \$119,166 towards the contract obligation.

As noted in the 2007 audit report, it is management's position that this purchased software is not in the best interest of the District's financial reporting needs. Issues had been raised about the stated capabilities of the purchased system as to whether certain reporting functions could be accomplished. Other issues have addressed training and customer service representations.

As of June 30, 2007 this purchased asset had been removed from the District's property records at a loss as no efforts had progressed towards a system implementation.

Criteria

Resources of the District should be protected in a prudent manner.

Effect

Resources in prior years have been spent with the District not receiving benefit.

Cause

Personnel changes have impacted the assessment of and implementation of the purchased financial reporting system.

Recommendation

We recommend the District obtain a legal assessment as to the recoverability of expended District funds.

Response

The District is seeking legal advice.

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Current Year Findings

8-1/Budget Violation

Criteria

Pursuant to New Mexico State Statute, actual expenditures cannot exceed budgeted amounts by fund. The District has the responsibility to monitor expenditures in relation to the approved budget. Should changes in circumstances necessitate an adjustment to the approved budget, the adjustment must be approved by the Board of Directors, and then submitted to the State of New Mexico Department of Finance and Administration for approval.

Condition

During the year ended June 30, 2008, the District's general fund expenditures exceeded the approved budget. This occurred primarily due to the expenditures for the Albuquerque West Levee project which were not included in the budget.

Effect

The District is in violation of New Mexico State Statute.

Cause

While the District prepares monthly listings of expenditures which are reviewed and approved by the Board, it does not prepare monthly reports which compare actual expenditures to the approved budget.

Recommendation

The District should prepare and distribute a monthly report which, at a minimum, compares actual total revenue and total expenditures with the approved budget. If circumstances arise in which unplanned expenditures are necessary, a budget adjustment should be submitted to the Board for approval. Following Board approval, any budget adjustment should be submitted to the State. The level of detail within this report should be consistent with the needs of the Board of Directors. We recommend that the monthly meeting agenda item which reviews and approves the monthly listing of District expenditures be expanded to include the approval of the monthly report comparing actual financial results to the budget.

Response

The MRGCD Treasurer will work with the Board of Directors and the Chief Engineer to determine the level of reporting, timeliness, and detail necessary to ensure compliance with the auditor's recommendation.

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Prior Year Findings Reported Not Repeated

6-2 Procurement

7-1 Water 2025 Grant Reporting

Current Year Findings

None.

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EXIT CONFERENCE
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An exit conference was held on December 1, 2008. Attending were:

Middle Rio Grande Conservancy District
Gary Perry, Chairman
James C. Roberts, Board Member
Augusta Meyers, Board Member
Subhas Shah, Chief Executive Officer
Jeanette Bustamante, Administrative Officer
Steven Houser, Secretary/Treasurer

Mackie, Reid & Company
Jim Van Der Geest, C.P.A.

Financial Statement Preparation

The Middle Rio Grande Conservancy District contracts with an outside independent public accountant to prepare the financial statements.