

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2009

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
TABLE OF CONTENTS
JUNE 30, 2009

INTRODUCTORY SECTION

	<u>Page</u>
Official Roster	i

FINANCIAL SECTION

Independent Auditors' Report	1-2
Management's Discussion and Analysis.....	3-8
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	14
Budgetary Comparison Schedule Budget to Actual (Non-GAAP Budgetary Basis) General Fund	15
Notes to the Financial Statements	16-31
Required Supplementary Information:	
Schedule of Funding Progress for the Retiree Health and Dental Insurance Plan.....	32
Schedule of Cash Accounts and Pledged Collateral.....	33-34
Schedule of Expenditures of Federal Awards	35
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.....	36-37
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	38-39
Schedule of Findings and Questioned Costs:	
Summary of Auditor's Results.....	40
Financial Statement Findings.....	41-58
Federal Award Findings and Questioned Costs.....	59
Exit Conference	60

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
OFFICAL ROSTER
JUNE 30, 2009

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

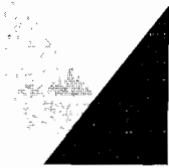
Honorable William Edward Parnall	Division No. 1
Honorable Stan Whitaker	Division No. 2
Honorable M. Monica Zamora	Division No. 3
Honorable Beatrice Brickhouse	Division No. 4
Honorable Ted Baca	Division No. 5
Honorable Neil Candelaria	Division No. 6
Honorable John J. Romero, Jr.	Division No. 7
Honorable Ross C. Sanchez	Division No. 8
Honorable Bob Schwartz	Division No. 9
Honorable Theresa Baca	Division No. 10
Honorable Gerard Lavelle	Division No. 11
Honorable Clay Campbell	Division No. 12
Honorable Valerie A. Huling	Division No. 13
Honorable Reed Sheppard	Division No. 14
Honorable Alan Malott	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>
Janet Jarratt, Chairman	5	Valencia
Cecil Eugene Abeita, Vice-Chairman	1	At-large
Karen Dunning	3	Bernalillo
Augusta Meyers	2	Bernalillo
Adrian Oglesby	4	Bernalillo
Chris Sichler	6	Socorro
Derrick J. Lente	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

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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, 2009, 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.

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.

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, 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, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009 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 financial statements that collectively comprise the basic financial statements of the Middle Rio Grande Conservancy District. The accompanying 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 basic 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 24, 2009

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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, 2009. 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 present a longer term view of the District's finances. Fund financial statements start on page 11. The financial statements for governmental activities demonstrate how services were financed in the short-term as well as what remains for future spending. Fund financial statements 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 should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$3.27 million or 7.38% for the year ended June 30, 2009; total assets increased by \$6.33 million, due in large part, to construction in progress of the Albuquerque West Levee; and total liabilities increased by \$3.06 million due to \$1.5 million owed to the Albuquerque Metropolitan Arroyo Flood Control Authority and the County of Bernalillo for the construction of the Albuquerque West Levee and \$1.54 million in outstanding voucher payables at fiscal year-end. (See Notes to the Financial Statements, footnote number 14(b) page 30).
- Program generated revenues totaled \$7.48 million for the year ended June 30, 2009, an increase of \$1.45 million or 24%, again due to a District receivable of \$4.4 million from the US Department of the Army for the construction of the Albuquerque West Levee. (See Notes to the Financial Statements, footnote number 14(b) page 30).
- Program related expenditures amounted to \$16.8 million during the same period or an increase of 14.2 % over fiscal year 2008 due to increased cost of lumber, steel, concrete and components; increased general and administrative costs caused by increased employee and retiree healthcare benefit costs; the District's fiscal year 2009 board election; increased safety program costs; increased printing and postage costs; and, increased general insurance costs.
- General revenues were \$12.6 million for the fiscal year 2009 and showed no significant change from fiscal year 2008 general revenues of \$12.5 million.

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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

- 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 5. 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.

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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FINANCIAL ANALYSIS

Total assets at June 30, 2009 and 2008, were \$52,671,067 and \$46,344,929, respectively. As of June 30, 2009 and 2008, the District held land and capital assets of \$19,859,618 and \$13,967,906 respectively, net of accumulated depreciation of \$10,934,911 in 2009 and \$11,287,959 in 2008. (Additions to capital assets are further explained in Notes to the Financial Statements, footnote number 7, page 24.) Other assets amounted to \$32,811,449 as of June 30, 2009 and \$32,377,023 as of June 30, 2008. Total liabilities as of June 30, 2009 and 2008, respectively were \$5,091,297 and \$2,034,745 (see Financial Highlights – bullet 1 above); with current liabilities of \$2,341,522 in 2009 and \$1,365,144 in 2008, with the increase due to an increase in fiscal year 2009 vouchers payable of \$1.06 million when compared to fiscal year 2008. Total long-term liabilities as of June 30, 2009 and 2008 were \$2,749,775 and \$669,601, respectively, with the increase due to payables incurred in the construction of the Albuquerque West Levee of \$1.5 million and an increase of \$514 thousand in post employment (GASB 45) liability when compared to fiscal year 2008 (See Notes to the Financial Statements, footnote number 11, page 27.) As of June 30, 2009 net assets included unrestricted net assets of \$27,724,628 and \$19,855,142 invested in capital assets, net of related debt. 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. The increased fiscal year 2009 invested in capital asset balance was caused by increased District investment in heavy equipment, Water 2025 infrastructure improvements and construction in progress on the Albuquerque West Levee (See Notes to the Financial Statements, footnote 7 page 24).

Total revenues for the years ended June 30, 2009 and 2008 were \$20,030,046 and \$18,519,362, respectively. This includes general revenues of \$12,550,690 in 2009 and \$12,485,114 in 2008, and program revenues in the amount of \$7,479,356 in 2009 and \$6,034,248 in 2008. Total expenses were \$16,760,460 in 2009 and \$14,682,319 in 2008 with the increase due to increased costs in personnel services, employee benefits, field expenses and general and administrative expenses. The total change in net assets for the years ended June 30, 2009 and 2008 was an increase of \$3,269,586 and \$3,837,043 respectively, resulting in net asset balances of \$47,579,770 and \$44,310,184 as of June 30, 2009 and 2008. Water service assessment revenue remained relatively unchanged with June 30, 2009 revenues of \$1,598,653 compared to June 30, 2008 revenues of \$1,572,359. Ad valorem revenue for fiscal year 2009 increased 7.5 % when compared to fiscal year 2008 with revenues of \$12,078,448 and \$11,236,311 respectively. Water 2025 (capital grant) revenue for fiscal year 2009 was \$278,681 compared to fiscal year 2008 revenue of \$1,148,678 (see Notes to the Financial Statements, footnote number 14(a) page 29). Contract revenue from governmental entities was \$5,321,954 in fiscal 2009 and \$2,017,154 in fiscal year 2008. Investment revenue was lower due to general overall decline in economic conditions with fiscal year 2009 revenue of \$190,057 compared to fiscal year 2008 revenue of \$1,031,882 (see Notes to the Financial Statements, footnote number 5 pages 22 and 23 for further discussion.)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

FINANCIAL ANALYSIS (continued)

At June 30, 2009 and 2008, total equity in all funds was \$22,457,742 and \$26,366,006, respectively. This decrease was caused by the completion of the Albuquerque West Levee project in fiscal year 2009 causing a subsequent decrease in cash reserve needed to balance the fiscal year 2010 budget. For the year ended June 30, 2009 reserved fund balances included \$967,287 reserved for inventories and prepaid expenses and \$1,233,536 reserved for encumbrances. Unreserved fund balances included \$7,118,532 designated for endowment, \$2,531,362 designated for subsequent year expenditures, and \$1,510,539 designated for general budget reserve. 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 for the year ended June 30, 2008 included \$7,112,960 designated for endowment, \$7,674,887 designated for subsequent years expenditures, and \$1,934,365 designated for general budget reserve. The District's undesignated portion of fund balance as of June 30, 2009 and 2008 respectively is \$9,096,486 and \$7,644,213.

For the year ended June 30, 2009 there was an excess of expenditures over revenues of \$3,908,264. This included excess expenditures in the general fund of \$3,954,662 and an excess of revenue over expenditures in the special revenue fund in the amount of \$46,398. Excess expenditures were the result of increased cost of current operations including personnel services, employee benefits, field expenses and general and administrative expenses (see Financial Highlights – bullet point number 3 above.) Total available revenue sources were \$1,263,380 more in 2009 than 2008 largely due to revenue earned as a result of the Albuquerque West Levee project.

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 as presented was 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. Budgeted expenses for the Albuquerque West Levee project were originally budgeted as general and administrative expenses under the line item Consulting Expense. Generally accepted accounting principles (GAAP) required these expenses to be classified as Capital Outlay, Construction in Progress. The Governing Board, through Budget Resolution BA 07-27-09-59, allowed the District to move certain budgeted line items so as to conform to GAAP. Because this resulted in no change to total budgeted expenditures, DFA approval was not needed. (See Budgetary Comparison Schedule on page 15.)

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, 2009 and 2008, the District budgeted expenditures to exceed revenues by \$7,674,887 and \$3,500,000 respectively. Reserves of cash and investments were used to complete the budget process.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

For the year ended June 30, 2009, actual revenues received were \$18,216,098 which exceeded budgeted revenues by \$2.68 million. Favorable variances included ad valorem tax collections, delinquency charges, contract revenue from governmental entities, operating and capital grants, and other revenue. Unfavorable variances included water service assessments and investment revenue.

For the year ended June 30, 2009, actual expenditures incurred were \$22,360,650, which were less than budgeted expenditures by \$851,734. Favorable variances included personnel services, contractual operating and maintenance services, field expenses, general and administration expense, and capital outlay. The only unfavorable variance was employee benefit, which was caused by increasing employee and retiree healthcare premium costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2009 and 2008, the District owned \$30,794,529 and \$25,255,865 respectively, of land and capital assets. This included \$14,194,856 in 2009 and \$14,018,555 in 2008 invested in equipment and vehicles to maintain District facilities; \$3,444,457 in 2009 and \$3,428,523 in 2008 invested in land and buildings; \$6,003,155 in 2009 and \$5,772,614 in 2008 invested in infrastructure; and \$974,448 in 2009 and \$981,900 in 2008 invested in office furniture and related equipment. Additionally in 2009 the District long-term construction projects consisting of the Albuquerque West Levee and the Bernardo Siphon resulted in a construction in progress balance of \$6,177,613 as of June 30, 2009, representing a significant increase of \$5,123,340 over fiscal year 2008. Additions to capital assets for the fiscal years ended June 30, 2009 and 2008 were \$7,036,577 and \$5,024,821 respectively. Major additions for the current fiscal year included vehicles and trailers of \$617,915; heavy field equipment of \$973,516; and construction in progress of \$5,123,340. Deletions for the fiscal years ended June 30, 2009 and 2008 were \$1,696,606 and \$47,663 respectively. The increased deletions were due to a district-wide auction to dispose of worn-out assets.

Ending accumulated depreciation as of June 30, 2009 and 2008 was \$10,934,911 and \$11,287,959 respectively. Net book value of capital assets was \$19,859,618 as of June 30, 2009 and \$13,967,906 as of June 30, 2008, with most of the net increase due to costs incurred in the construction of the Albuquerque West Levee and the Bernardo Siphon projects.

There were no new capital leases for the year ended June 30, 2009 or 2008. Principal repayments on capital lease obligations for the year ending June 30, 2009 and 2008 were \$52,433 and \$160,328 respectively. Ending capital lease obligations were \$4,476 as of June 30, 2009 and \$56,909 as of June 30, 2008.

DISTRICT HIGHLIGHTS

During fiscal year 2009, the 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, 2009 and ended as scheduled October 31, 2009. Some of the District's water conveyance system remained open until November 15, 2009 in order to provide additional water to the six Indian pueblos in the District's boundaries.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

DISTRICT HIGHLIGHTS (continued)

Construction of the 3.2 mile Albuquerque West Levee was completed at a cost of \$6.3 million. The project was a cooperative effort by the District, Albuquerque Metropolitan Arroyo Flood Authority (AMAFCA), Bernalillo County and the U.S. Army Corps of Engineers. The spoil bank levee was built in the 1930's and did not meet new levee standards set forth by the Corps of Engineers. AMAFCA and Bernalillo provided \$1 million each at the completion of the design phase of the project. The Conservancy provided the balance. The U.S. Army Corps of Engineers will reimburse the District at 75% of the total cost. The District will in turn reimburse 75% of the \$1 million front money to AMAFCA and Bernalillo County.

The District held its bi-annual board of directors election and seated four new Board members early in fiscal year 2010. Judge Alan M. Malott of the 2nd Judicial District Court rendered the Oath of Office to Ms. Karen Dunning, Elected Director, Position 3-Bernalillo County, Mr. Derrick Lente, Elected Director, Position 7-Sandoval County, Mr. Adrian Oglesby, Elected Director, Position 4-Bernalillo County, and Mr. Chris Sichler, Elected Director, Position 6-Socorro County.

The Board of Directors elected a new Chairman, Ms. Janet Jarratt, who has served 3 years as an Elected Director for Valencia County. Former Chairman, Mr. Gary Perry chose to step down and did not run for re-election, Position 6-Socorro County.

The District's largest federal grant project, Water 2025, continued to improve, modernize and increase water conveyance efficiency through system automation, water measurement and water management improvements within the Middle Rio Grande Valley. Since the beginning of the project, the District has installed approximately 36 new gate structures with state of the art telemetry and 2.5 miles of concrete lined canal. 10 – 12 additional gates will be installed when the project is completed in December 2009. The total cost of the project will be \$7.2 million and will be cost shared on a 50/50 basis with the Bureau of Reclamation.

The District purchased a new accounting system during the fourth quarter of fiscal 2009. It will replace the existing accounting system, which has been in use since 1987. Training began in the first quarter of fiscal 2010. The estimated go-live date for the financial system is April 1, 2010; the estimated go-live date for the payroll and human resource system is July 1, 2010; and the estimated go-live date for the work-order and fleet maintenance system is to be determined.

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, 2009

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,601,545
Investments:	
Local Government Investment Pool	19,351,403
Reserve Contingency Fund	447,948
Current receivables, net:	
Interest	4,229
Ad valorem assessments, net of allowance of \$118,000	1,876,266
Water service and delinquency charges, net of allowance of \$134,000	323,653
Governmental entities	2,507,912
Capital and operating grants	245,455
Employees and Board members	1,440
Other	2,889
Material and supply inventories, at cost	967,287
Contract receivable from U.S. Department of the Army, due after one year	4,481,422
Capital assets:	
Land	457,172
Depreciable property, equipment, and infrastructure, net of accumulated depreciation	13,224,833
Construction in progress	<u>6,177,613</u>
Total assets	<u>52,671,067</u>
Liabilities	
Vouchers payable	1,536,028
Accrued payroll and related benefits payable	374,127
Other liabilities	30,407
Obligation under capital lease, payable within one year	4,476
Accrued compensated absences:	
Payable within one year	396,484
Payable after one year	374,779
Payable to local governments, due after one year	1,502,064
Obligation for postemployment benefits, payable after one year	<u>872,932</u>
Total liabilities	<u>5,091,297</u>
Net assets	
Invested in capital assets, net of related debt	19,855,142
Unrestricted	<u>27,724,628</u>
Total net assets	\$ <u>47,579,770</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	<u>Governmental Activities</u>
Program Expenses	
Public Works:	
Personnel services	\$ 6,936,711
Employee benefits	3,394,367
Contractual operating and maintenance services	555,330
Field expenses	2,416,148
General and administrative expenses	2,424,050
Depreciation	1,112,473
Interest	424
Internal costs capitalized	<u>(79,043)</u>
Total program expenses	<u>16,760,460</u>
Program revenues	
Charges for services:	
Water service assessments	1,598,653
Contracts with governmental entities	5,321,954
Other revenue	156,289
Capital grant	278,681
Operating grants	<u>123,779</u>
Total program revenues	<u>7,479,356</u>
Net program expense	(9,281,104)
General revenues	
Ad valorem assessments	12,078,448
Delinquency charges	158,766
Investment income	190,057
Gain on equipment and property removal	85,047
Water bank leases	<u>38,372</u>
Total general revenues	<u>12,550,690</u>
Increase in net assets	3,269,586
Net assets, beginning of year	<u>44,310,184</u>
Net assets, end of year	\$ <u>47,579,770</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,840,825	\$ 760,720	\$ 2,601,545
Investments:			
Local Government Investment Pool	12,900,204	6,451,199	19,351,403
Reserve Contingency Fund	315,648	132,300	447,948
Current receivables, net:			
Interest	4,229	-	4,229
Ad valorem assessments, net of allowance of \$118,000	1,876,266	-	1,876,266
Water service and delinquency charges, net of allowance of \$134,000	323,653	-	323,653
Governmental entities	2,507,912	-	2,507,912
Capital and operating grants	245,455	-	245,455
Interfund receivable	-	31,564	31,564
Employees and Board members	1,440	-	1,440
Other	2,889	-	2,889
Material and supply inventories, at cost	967,287	-	967,287
Contract receivable from U.S. Department of Army, due after one year	<u>4,481,422</u>	<u>-</u>	<u>4,481,422</u>
Total assets	<u>\$ 25,467,230</u>	<u>\$ 7,375,783</u>	<u>\$ 32,843,013</u>
Liabilities and fund balances			
Liabilities			
Vouchers payable	\$ 1,536,028	\$ -	\$ 1,536,028
Accrued payroll and related benefits payable	374,127	-	374,127
Interfund payable	31,564	-	31,564
Other liabilities	30,407	-	30,407
Deferred revenue	<u>8,413,145</u>	<u>-</u>	<u>8,413,145</u>
Total liabilities	<u>10,385,271</u>	<u>-</u>	<u>10,385,271</u>
Fund balances			
Reserved for inventories	967,287	-	967,287
Reserved for encumbrances	1,233,536	-	1,233,536
Unreserved:			
Designated for endowment	-	7,118,532	7,118,532
Designated for subsequent years expenditures	2,531,362	-	2,531,362
Designated for general budget reserve	1,510,539	-	1,510,539
Undesignated	<u>8,839,235</u>	<u>257,251</u>	<u>9,096,486</u>
Total fund balances	<u>15,081,959</u>	<u>7,375,783</u>	<u>22,457,742</u>
Total liabilities and fund balances	<u>\$ 25,467,230</u>	<u>\$ 7,375,783</u>	<u>\$ 32,843,013</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, 2009

Total fund balances (Balance sheet)		\$ 22,457,742
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.		19,859,618
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.		8,413,145
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	\$ (4,476)	
Accrued compensated absences	(771,263)	
Obligation for postemployment benefits	(872,932)	
Payable to local governments	<u>(1,502,064)</u>	
Total liabilities		<u>(3,150,735)</u>
Total net assets (Statement of net assets)		\$ <u>47,579,770</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, 2009

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem assessments	\$ 11,817,677	\$ -	\$ 11,817,677
Water service assessments	1,582,976	-	1,582,976
Delinquency charges	158,766	-	158,766
Investment income	182,031	8,026	190,057
Contracts with governmental entities	2,998,262	-	2,998,262
Capital grant	1,076,246	-	1,076,246
Operating grants	126,412	-	126,412
Water bank leases	-	38,372	38,372
Equipment sale	117,439	-	117,439
Other	<u>156,289</u>	<u>-</u>	<u>156,289</u>
Total revenues	<u>18,216,098</u>	<u>46,398</u>	<u>18,262,496</u>
Expenditures			
Public works:			
Current operations	15,160,369	-	15,160,369
Capital outlays	6,957,534	-	6,957,534
Debt service:			
Obligations under capital lease:			
Principal	52,433	-	52,433
Interest	<u>424</u>	<u>-</u>	<u>424</u>
Total expenditures	<u>22,170,760</u>	<u>-</u>	<u>22,170,760</u>
Increase (decrease) in fund balances	(3,954,662)	46,398	(3,908,264)
Fund balances, beginning of year	<u>19,036,621</u>	<u>7,329,385</u>	<u>26,366,006</u>
Fund balances, end of year	\$ <u>15,081,959</u>	\$ <u>7,375,783</u>	\$ <u>22,457,742</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, 2009

Decrease in fund balances (Statement of revenues, expenditures and changes in fund balances)	\$(3,908,264)
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.	7,036,577
Governmental funds do not report depreciation expense which is recorded in the statement of activities.	(1,112,473)
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.	(32,392)
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.	1,799,942
Governmental funds do not report the net change in compensated absences.	(51,672)
Governmental funds report the repayment of capital lease obligations.	52,433
Governmental funds do not report the net change in obligation for other postemployment benefits.	(514,565)
Increase in net assets (Statement of activities)	\$ <u>3,269,586</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, 2009

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 10,575,152	\$ 10,575,152	\$ 11,817,677	\$ 1,242,525
Water service assessments	1,954,722	1,954,722	1,582,976	(371,746)
Delinquency charges	110,000	110,000	158,766	48,766
Investment income	650,000	650,000	182,031	(467,969)
Contracts with governmental entities	1,336,824	1,336,824	2,998,262	1,661,438
Operating and capital grants	712,799	712,799	1,202,658	489,859
Other	<u>198,000</u>	<u>198,000</u>	<u>273,728</u>	<u>75,728</u>
 Total revenues	 <u>15,537,497</u>	 <u>15,537,497</u>	 <u>18,216,098</u>	 <u>2,678,601</u>
Expenditures				
Current operations				
Personnel services	7,837,077	7,117,077	6,885,040	232,037
Employee benefits	3,014,084	2,869,084	2,879,802	(10,718)
Contractual operating and maintenance services	561,523	561,523	555,330	6,193
Field expenses	3,163,370	2,754,370	2,627,303	127,067
General and administration expense	6,802,375	2,172,375	2,105,720	66,655
Capital outlays	<u>1,833,955</u>	<u>7,737,955</u>	<u>7,307,455</u>	<u>430,500</u>
 Total expenditures	 <u>23,212,384</u>	 <u>23,212,384</u>	 <u>22,360,650</u>	 <u>851,734</u>
 Excess expenditures over revenues	 \$ (<u>7,674,887</u>)	 \$ (<u>7,674,887</u>)	 \$ (<u>4,144,552</u>)	 \$ <u>3,530,335</u>
 Prior year fund balance budget basis	 \$ <u>17,992,976</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, 2009

(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, 2009), and unrestricted net assets.

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

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(b) Government-Wide and Fund Financial Statements (continued)

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, 2009. 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. Activities between the funds that are representative of lending/borrowing arrangements outstanding at the end of the year that are expected to be paid back within the year are included in interfund receivable/payable in the accompanying balance sheet. 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.

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, grant revenue, and contract revenue are considered available if they are collected within thirty days of the current fiscal year end. Investment income is considered available when earned. 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(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.

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

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(f) Capital Assets (continued)

Beginning July 1, 2009, GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets will require the District to report intangible assets acquired, including easements and water rights, as capital assets. Intangible assets will be amortized over their estimated useful lives. Intangible assets with indefinite useful lives will not be amortized. The Statement requires retroactive reporting for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives. The District has not determined the future effects of this statement on its financial statements.

(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, 2009, accrued vested annual leave totaled \$518,713.

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, 2009, accrued vested sick leave totaled \$238,560.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2009, accrued vested compensatory leave totaled \$13,990.

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.

(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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(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, 2009, 2008 and 2007.

(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, 2010 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, 2010 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.

(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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(2) Summary of Significant Accounting Policies (continued)

(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. 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, 2009, general fund budgeted expenditures exceeded budgeted revenues by \$7,674,887. Prior year cash and investment balances of the general fund were used to complete the budget process.

(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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(4) Cash and Cash Equivalents (continued)

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, 2009, the carrying amount of the District's cash deposits was \$1,155,079 and the bank balance on these accounts was \$1,165,338. Funds in the amount of \$510,720 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, 2009, the carrying amount of the District's repurchase agreement was \$1,445,466. The fair market value of the purchased federal agency securities amounted to \$1,445,466. 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 investment in the Local Government Investment Pool at June 30, 2009 consists of two accounts in the New Mexico State Treasurer's Local Government Investment Pool (Pool). Participation in the Pool is voluntary. Investments (\$19,351,403) are stated at fair value based on quoted market value as of June 30, 2009.

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 AAAM by Standard and Poor's.

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, 2009, the Pool's WAM is 43 days.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(5) Investments (continued)

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2009, 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. This amounted to \$81,235 during the year ended June 30, 2009. The total interest earned in the Pool was \$267,416 for the year ended June 30, 2009.

As of September 30, 2009, the Pool was still rated AAAM by Standard & Poor's and the Pool's WAM had decreased to 19 days.

In September, 2008, the Pool's investment in a certain money market fund was downgraded to a Standard & Poor's rating of D and was frozen, and in February, 2009, the Pool placed this investment in a separate account, designated the Reserve Contingency Fund (Fund). The Fund is in the process of liquidation and is considered a non-performing asset since it is no longer earning interest. During the year ended June 30, 2009, the District recorded a loss of \$86,342, representing a write down of the Fund to its fair value based on estimated future liquidating distributions. This loss is netted against interest income, and is included in investment income in the accompanying financial statements. As of June 30, 2009, the estimated fair value of the District's investment in the Fund is \$447,948.

(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, 2009, 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, 2009, water service assessments were assessed and levied at a uniform rate per acre of \$28.00 based on acreage approximating 56,111 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, 2009

(7) Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Adjustments	Increases	Decreases	Balance June 30, 2009
Capital assets:					
Land	\$ 457,172	\$ -	\$ -	\$ -	\$ 457,172
Buildings and improvements	2,971,351	-	15,934	-	2,987,285
Office furniture and equipment	981,900	-	45,751	53,203	974,448
Engineering equipment	53,280	87,307	-	14,668	125,919
Communication equipment	14,896	-	-	2,051	12,845
Motor vehicles and trailers	5,784,119	32,000	617,915	799,185	5,634,849
Weed and pest control equipment	316,729	-	29,580	27,750	318,559
Heavy field equipment	7,682,690	79,386	973,516	799,749	7,935,843
Shop and field equipment	166,841	-	-	-	166,841
Infrastructure	5,772,614	-	230,541	-	6,003,155
Construction in progress	<u>1,054,273</u>	<u>-</u>	<u>5,123,340</u>	<u>-</u>	<u>6,177,613</u>
Total capital assets	<u>25,255,865</u>	<u>198,693</u>	<u>7,036,577</u>	<u>1,696,606</u>	<u>30,794,529</u>
Less accumulated depreciation:					
Buildings and improvements	1,022,603	-	62,415	-	1,085,018
Office furniture and equipment	823,840	-	32,713	51,957	804,596
Engineering equipment	50,701	87,307	887	14,668	124,227
Communication equipment	13,074	-	291	2,051	11,314
Motor vehicles and trailers	4,508,349	32,000	375,759	799,185	4,116,923
Weed and pest control equipment	272,239	-	14,581	27,750	259,070
Heavy field equipment	4,146,797	79,386	418,737	768,603	3,876,317
Shop and field equipment	124,742	-	7,687	-	132,429
Infrastructure	<u>325,614</u>	<u>-</u>	<u>199,403</u>	<u>-</u>	<u>525,017</u>
Total accumulated depreciation	<u>11,287,959</u>	<u>198,693</u>	<u>1,112,473</u>	<u>1,664,214</u>	<u>10,934,911</u>
Capital assets, net	\$ <u>13,967,906</u>	\$ <u>-</u>	\$ <u>5,924,104</u>	\$ <u>32,392</u>	\$ <u>19,859,618</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, 2009 is attributable to the following receivables:

Ad valorem assessments	\$ 1,530,668
Water service and delinquency charges	306,362
Governmental contracts	6,487,880
Capital and operating grants	<u>88,235</u>
	<u>\$ 8,413,145</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(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, 2009 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 \$4,476.

The following is a summary of changes in capital lease obligations for the year ended June 30, 2009:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Portions due within one year	\$ 52,521	\$ -	\$ 48,045	\$ 4,476
Portions due after one year	<u>4,388</u>	<u>-</u>	<u>4,388</u>	<u>-</u>
	<u>\$ 56,909</u>	<u>\$ -</u>	<u>\$ 52,433</u>	<u>\$ 4,476</u>

As of June 30, 2009, the cost of equipment acquired under the outstanding capital lease is \$236,384 with \$75,699 of accumulated depreciation. Depreciation expense of \$15,759 has been recorded on this asset during the year.

(b) Accrued Compensated Absences

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2009:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Compensated absences payable				
Payable within one year	\$ 412,745	\$ 915,057	\$ 931,318	\$ 396,484
Payable after one year	<u>306,846</u>	<u>67,933</u>	<u>-</u>	<u>374,779</u>
	<u>\$ 719,591</u>	<u>\$ 982,990</u>	<u>\$ 931,318</u>	<u>\$ 771,263</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, 2009

(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 gross covered salary. The contribution requirements of plan members and the District are established in State statute 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, 2009, 2008, and 2007 were \$1,293,851, \$1,227,458, and \$1,140,639, 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, 2009, the District's contribution was 80% of the cost.

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, 2009 and 2008, respectively, there were twenty two and nineteen 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, 2009, the District contributed \$114,963 under the plan.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(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, 2009 and changes in the obligation.

Annual required contribution	\$ 613,401
Interest on net obligation	16,127
Contributions made from general fund	(114,963)
Increase in obligation	514,565
Obligation, beginning of year	<u>358,367</u>
Obligation, end of year	\$ <u>872,932</u>

(d) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009 is as follows. The actuarial accrued liability (AAL) of \$6,481,060 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, 2009 is \$6,885,040. UAAL is 94% 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, 2008 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, 2009 is 28 years.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(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, 2009

(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 \$6,003,155, of which \$230,541 was capitalized in the year ending June 30, 2009. 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 \$7,118,532 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, 2009 is as follows:

	<u>General Fund</u>
Excess of expenditures over revenues on a non-GAAP budgetary basis	\$ (4,144,552)
Prior year encumbrances	(1,043,646)
Current year encumbrances	<u>1,233,536</u>
Excess of expenditures over revenues on a GAAP basis	\$ <u>(3,954,662)</u>

(14) Commitments

(a) Water 2025

In September, 2004, the District entered into a cooperative assistance agreement with 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 \$6,865,850 with the District obligated to provide 50% cost share. During the year ended June 30, 2009, the District recognized \$278,681 of capital grant revenue from this agreement in its statement of activities. \$65,272 of this revenue is deferred in the District's fund financial statements. The District's fund financial statements include \$862,837 of revenue that was deferred at June 30, 2008. The District has cumulatively accounted for \$2,799,158 of federal funding and \$3,027,169 of cost share through June 30, 2009.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(14) Commitments (continued)

(b) Albuquerque West Levee

In October, 2007, the District entered into agreements 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 approximately \$6.4 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 agreements with the Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA) and the County of Bernalillo (County), whereby AMAFCA and County each provided \$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, 2009, the District has recorded cumulative expenditures of \$5,975,229 in connection with the project, including capital expenditures of \$5,974,829 included in construction in progress in the accompanying statement of net assets. During the year ended June 30, 2009, the District recognized \$3,785,763 of contract revenue from the U.S. Department of the Army agreement in the statement of activities, representing the federal government's 75% cost share of the District's expenditures during the year ended June 30, 2009. At June 30, 2009 all of this revenue together with \$695,659 of contract revenue recognized during the year ended June 30, 2008 is deferred in the District's fund financial statements. The District has recognized a receivable of \$4,481,422 from the government as of June 30, 2009.

During the year ended June 30, 2009, the District recognized \$420,640 of contract revenue from the AMAFCA and County agreements in the statement of activities, representing their cost share of the project expenditures during the year ended June 30, 2009. This revenue together with \$77,296 of revenue which was deferred as of June 30, 2008 is included in the District's fund financial statements. A payable to AMAFCA and the County in the amount of \$1,502,064 is included in the accompanying statement of net assets.

The project was substantially completed as of July 17, 2009. Additional costs estimated to be incurred after June 30, 2009 are included in fund balances reserved for encumbrances in the accompanying balance sheet.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

(14) Commitments (continued)

(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 \$1,514,000 estimated to be met by in-kind work during the construction period, and cash share estimated at \$302,000. The construction is projected to be completed in April 2010. During the year ended June 30, 2009, the District remitted cash share of \$302,000 to the federal government, which is included in field expenses in the accompanying statement of activities, and in expenditures for current operations in the accompanying fund financial statements. As of June 30, 2009, the District has met approximately \$9,000 of its in-kind cost share.

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, 2009

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)
07/01/08	\$ -0-	\$ 6,481,060	\$ 6,481,060	0%	\$ 6,885,040	94%
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, 2009

	<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>250,779</u>	\$ <u>509,941</u>	\$ <u>760,720</u>
Balance per bank	\$ <u>250,779</u>	\$ <u>509,941</u>	\$ 760,720
Less: FDIC coverage			<u>250,000</u>
Total uninsured public funds			<u>510,720</u>
50% collateral requirement			255,360
Pledged securities			<u>921,812</u>
Over (under)			\$ <u>666,452</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	\$ 76,948	8.000%	05/01/2031	\$ 84,242
31391YX28	197,609	5.602%	02/01/2029	202,480
31391YX36	413,636	5.935%	09/01/2027	427,218
31391YXX0	38,606	5.432%	03/01/2029	39,666
31391YXY8	74,795	5.538%	08/01/2029	76,558
31405FHY1	22,225	6.500%	10/01/2032	24,004
31410KFF6	43,153	6.000%	05/01/2038	45,417
Nine similar securities				<u>22,227</u>
Collateral held by the Bank of New York, NY, NY.				\$ <u>921,812</u>

(continued)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
JUNE 30, 2009

	General Fund	
<u>Wells Fargo Bank NM, NA</u>		
Balance per books	\$ <u>394,359</u>	
Balance per bank	\$ <u>404,618</u>	\$ 404,618
Less: FDIC coverage		<u>404,618</u>
Total uninsured public funds		_____ -
50% collateral requirement		-
Pledged securities		_____ -
Over (under)		\$ <u>_____</u> -
 <u>Wells Fargo Bank NM, NA, Repurchase Agreement</u>		
Balance per agreement		\$ 1,445,466
102% collateral requirement		1,474,375
Pledged securities		<u>1,474,375</u>
Over (under)		\$ <u>_____</u> -
 Collateralized as follows:		
FNCL 00831610, CUSIP #31407H3T1, Face value \$1,400,806, 6%, Due 06/01/2036		\$ <u>1,474,375</u>
Collateral held by Wells Fargo Bank California, San Francisco, CA		\$ <u>1,474,375</u>
 Reconciliation to financial statements:		
Bank of America		\$ 760,720
Wells Fargo Bank, NM		1,839,825
Cash on hand		<u>1,000</u>
		\$ <u>2,601,545</u>

(concluded)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

<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		\$ 278,681
Fish and Wildlife Coordination Act	15.517		<u>23,849</u>
Total U. S. Department of Interior			302,530
U.S. Department of Agriculture			
Collaborative Forest Restoration	10.679		78,321
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>3,785,763</u>
Total Expenditures of Federal Awards			\$ <u>4,166,614</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 \$3,027,169 of cumulative cost share through June 30, 2009 of which \$506,691 occurred in the year ending June 30, 2009. \$400,000 of the District's cost share during the year ending June 30, 2009 was met in the form of Water 2025 funds provided to the Pueblo of Cochiti for improvements to District facilities on Pueblo lands.

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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 24, 2009. 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. 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, 8-1, and 9-1 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 and 9-1 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 9-2.

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 24, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS
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 its major federal program for the year ended June 30, 2009. The District's major federal program is 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 its major federal program 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 its major federal program for the year ended June 30, 2009.

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 24, 2009

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Funding Source</u>
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 no

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Prior Year Findings Reported Not Repeated

- 6-3 Grant Agreement Match Documentation
- 7-4 Financial Reporting Software

Prior Year Findings Modified and Repeated

- 3-6 Endowment Fund
- 4-1 Personnel Policy
- 6-1 Water Service Charge Assessments
- 8-1 Budget/Board Reporting

Current Year Findings

- 9-1 Procurement-Disbursements
- 9-2 Travel and Per Diem

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

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, 2009, this fund has \$7,118,532. 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 than 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, 2009 the endowment fund and general fund investments in the Pool and interest rates were .28%. The average rate earned for fiscal year 2009 approximated 1.3%.

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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

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.

Alternatively, as this comment has been presented since fiscal year 2003, we recommend that if Board preference is the status quo a Board resolution be so adopted and this comment will be removed in future audits.

Response

The District recognizes its fiduciary responsibility to maximize returns on funds not needed for current operations. It also recognizes that it has a responsibility to act wisely, cautiously, and with prudence to ensure the preservation and protection of principal when investing public funds. Current District policy is to invest endowment fund monies in the New Mexico State Treasurer's Office Local Government Investment Pool. All investments are made in accordance with the State Treasurer's investment policy, a document that sets investment guidelines for all Treasury investments, as approved by the State Treasurer's Investment Committee and the State Board of Finance. In accordance with the state's fiduciary responsibility, all investments made by the State Treasurer's Office must follow three fundamental principles: safety (preservation of principal), maintenance of liquidity, and maximum return, prioritized in that order.

Volatile market conditions and uncertainty dictates caution when dealing with tax payer dollars. Until the market presents alternative investment opportunities returning consistent yields in excess of current return, preservation of public funds principal, maintenance of liquidity while minimizing unnecessary and excessive risk, the District will continue with its current investment strategy.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

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

The District has several employees who have in excess of twenty years of service. These employees have received cost of living allowances and merit increases throughout their employment with the District. These cost of living allowances and merit increases have been properly documented; however years of accumulation has systemically caused some employees' salaries to exceed the District's pay rate schedule. All pay rate changes are documented with personnel action forms and approved by the District's Chief Engineer.

A salary survey was completed by an independent outside contractor in fiscal year 2007. The District and Board of Directors were not in full agreement with the findings. The human resource department requested funding approval for an updated salary survey during the fiscal year 2009. Due to budget constraints the funding was denied. Funding will be requested again in fiscal year 2010.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Prior Year Findings Modified and Repeated

6-1/ Water Service Charge Assessments

Condition

A statistical summary of delinquent water service charges for the prior four years follow:

<u>Year</u>	<u>Gross Water Service and Delinquency Charges</u>	<u>Financial Reporting Allowance</u>	<u>Net Receivable per Financial Statements</u>	<u>Amounts Greater than Four Years Old</u>
2009	\$ 457,653	\$ 134,000	\$ 323,653	\$ 147,910
2008	473,446	168,000	305,446	177,491
2007	607,026	193,000	414,026	171,727
2006	621,908	152,597	469,311	152,597

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, 2009, the District removed from its books (effective June 30, 2009) delinquent water service charge assessments in the amount of \$35,134.

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 the existence of policies, procedures and practices 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 may be overstated. Absence of complete policies, practices and procedures may subject the District to loss of resources.

Cause

Comprehensive written policies, practices and procedures have not been adopted with respect to management of delinquent accounts.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

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 continuing efforts made in pursuing resolution of delinquent accounts. These efforts should be part of the comprehensive written policies and procedures.

Response

As indicated, the assessments office continues to reduce the dollar amount of delinquent water service charge assessments and the number of outstanding delinquent accounts. These efforts have included filing of liens, contacting delinquent property owners, and mailing of delinquency letters. Comprehensive written policies, practice and procedures will require the support of legal counsel and the District's governing Board. The Treasurer will request legal and governing Board assistance.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Prior Year Findings Modified and Repeated

8-1/Budget/Board Reporting

Criteria

Pursuant to New Mexico State Statute, actual expenditures cannot exceed budgeted amounts by fund. The District and Board members has the responsibility to monitor expenditures in relation to the approved budget as well as the overall financial health of the District.

Condition

During the year ended June 30, 2009, Board meeting minutes provided no evidence of periodic monitoring by the Board of actual revenues and expenditures in comparison to budgeted amounts.

Effect

The District is not providing evidence of monitoring expenditures in relation to the approved budget throughout the year.

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 revenues and 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 or planned revenues do not materialize, 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.

In addition, we recommend that consideration be given to developing a simple report for Board member information detailing District assets (resources) and liabilities (obligations). These reports would be presented to Board members periodically whether or not part of the regular meeting agenda.

Response

The District Treasurer regularly provides payment ratification schedules summarizing District expenditures. These schedules are an agenda item of every regularly scheduled board meeting. The Board is given the opportunity to inquire of all expenditures and to review all supporting documentation. In addition, the Board reviews all attorney invoices as well as Water 2025 contractor invoices prior to the Treasurer making payment disbursement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Prior Year Findings Modified and Repeated

8-1/Budget/Board Reporting (continued)

Response (continued)

Beginning fiscal year 2010, the District Treasurer presented a 2 month (July and August) budget status report to the governing board. A quarterly budget status report was presented to the governing Board in early November. The Treasurer is working with the Board chairman to determine reporting requirements and level of detail. Consideration will also be given to resource and obligation reporting.

The District has purchased new accounting software and implementation is expected to go live in April 2010. It is expected the new software will allow for easier data extraction and timelier reporting.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Current Year Findings

9-1/Procurement-Disbursements

Criteria

The District has established procurement policies which comply with state procurement law. The District has established additional internal control policies and practices concerning procurement and disbursements.

Conditions

During our test of disbursements we noted instances where the internal control policies or practices were not completed:

- One check for \$660 had only one of the two required signatures.
- Payment was made for items on one invoice at prices that exceeded the prices on the purchase order by \$515.
- One invoice was paid for three items totaling \$644. The receiving report did not indicate the quantity of items received.
- Two charges for fuel totaling \$98 and \$36 related to odometer readings which were identified as exceptions, but were not explained by the Division manager.
- One invoice for \$636 was paid without a purchase order, the requisition was dated several months after the invoice date, and the requisition did not have the division manager's genuine signature.
- One invoice for \$57,841 was part of a purchase approved as a "sole source"; however, documentation relating to determination for sole source procurement was not created and maintained.
- Payments totaling \$50,927 were made to a vendor for professional services without a contract or competitive proposals.
- Six disbursements for tires or repair parts, totaling \$4,853 were not posted to the District's repair and maintenance records for the applicable equipment and one disbursement for a repair part for \$632 was posted to the repair and maintenance records, but the records did not indicate the repair was completed.
- Following the termination of an employee in the District's Equipment Repair and Transportation Department for attendance issues, the District discovered the employee had made certain unauthorized purchases totaling approximately \$46,000 (based on the District's completed investigation) with District funds.
- When checks are signed by the two signers in instances where one of the two signers is not the District Treasurer, one of the two signers should review the supporting documentation.

Effect

The District has not complied or fully complied with documentation standards applicable to its procurement and internal control policies and procedures.

Cause

Numerous District employees participate in the procurement process, and all employees may not be aware of all of the District's internal control policies, procedures, and practices related to procurement and disbursement. In addition, the District has certain vendors that may have been determined in the past to be the sole source, without updating this determination in subsequent years.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Current Year Findings

9-1/Procurement-Disbursements (continued)

Recommendation

The District should continue to emphasize and train applicable District employees on its procedures and practices relative to established procurement and disbursement policies. Management and employees should maintain an attitude of skepticism and thoroughly investigate instances when there appear to be exceptions to normal District policies and procedures. In addition, the District policy requires that when a contract is awarded as sole source procurement, a good-faith review of available sources must be documented. When contracts are issued annually, this determination and documentation must be performed annually.

Response

- Receptionist who stuffs checks into the envelopes for mailing will ensure that two signatures are on the check before mailing.
- This error was discovered by the general ledger supervisor when reconciling inventory purchases to the inventory purchase module. Accounting is working with the vendor and the District is expecting a credit for the \$515. In this instance there was confusion as to whether tax was included in the purchase order pricing. Employee was counseled to ensure her understanding that purchase order pricing should not be adjusted without proper authorization.
- The receiving report was signed by the field clerk; however the clerk failed to record the quantity received. The District held a mandatory meeting with staff to review and discuss purchasing and receiving procedures on 11/16/09 (See attached agenda page 57). Staff has been made aware that when receiving product, it is mandatory that quantities received be recorded.
- Prior to the FY09 audit, the accounting department identified the odometer readings in question. The accounting department notified division management of the exception. Division management failed to respond with an explanation. Accounting paid the invoice (\$76,684.78) because it didn't feel it was appropriate to withhold vendor payment. Follow up procedures with division management were overlooked. Accounting staff will work closely with division management to ensure procedure is followed.
- This invoice was found after going through the desk of a terminated employee who was being investigated for fraud against the District. The invoice was given to the accounts payable department for payment. The accounting department completed a requisition without a purchase order to facilitate payment to the vendor; to create a purchase order would have extended the time for payment. At the time the terminated employee purchased the product, he was in the employ of the District and the District Treasurer felt it was only prudent to pay the vendor who performed appropriately.
- When possible the District purchasing agent will require the requesting division manager or project manager to provide sole-source documentation before making a purchase. The purchasing agent will maintain sole-source documentation. The Treasurer will work with purchasing agent, division manager and/or project manager to ensure that documentation is created and maintained.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Current Year Findings

9-1/Procurement-Disbursements (continued)

Response (continued)

- The District did not anticipate the professional services to exceed the \$50,000 threshold and therefore neither a contract nor a sole source document was completed.
- The Equipment, Repair and Transportation (ER&T) division manager will ensure that mechanics create work orders for all repairs. All parts used, whether ordered or issued from inventory, will be documented on the work order. All unused parts will either be returned to the ER&T division manager or returned to inventory. The field clerk will ensure that all copies of invoices or issued inventory are attached to the work order. Field clerks will post to the vehicle maintenance system. Field clerks will ensure and maintain all supporting documentation. The ER&T division manager will oversee all divisions to ensure the procedures are working as described.
- Fraud investigation: Upon discovery, the District immediately took the following steps to fully investigate the terminated employee's actions. (The employee was terminated 03/04/09 for attendance issues.)
 - a. Shortly after termination the accounts payable department reported to the ER&T division manager that there were unpaid and past-due invoices needing requisitions, purchase orders and authorization for payment. These invoices were for tire purchases from a local vendor. The division manager was not aware of the invoices and was provided copies for his research. The division manager discovered the tires were purchased against previously issued purchase order numbers; some were similar to District purchase order sequencing but had not been issued by the District purchasing agent; some invoices had wrong vehicle numbers; and some had vehicle numbers that did not match District vehicles. It was further discovered that the tires had been picked up and signed for by the terminated employee.
 - b. Immediate search of all District warehouses was started in an attempt to find the purchased tires. None were found.
 - c. The District work order vehicle maintenance system was queried in an attempt to determine if the tires had been mounted on District vehicles but there were no supporting records of installation.
 - d. The ER&T division manager made the determination that the tires were not purchased for District use.
 - e. 03/16/09 – the District initiated a telephone conference with the terminated employee. In attendance was the District purchasing agent, human resource director and ER&T division manager. The terminated employee was asked to explain why there were incorrect requisition numbers, purchase orders, vehicle numbers, and unreliable supporting documentation for these purchases. The employee said he needed to see the documentation, but that he knew the vendor in question had problems with invoicing properly. The terminated employee said he would cooperate with the District.
 - f. Other types of unauthorized purchases surfaced for automotive parts that were not in the District's fleet of vehicles.
 - g. The District notified all parts and repair vendors by certified mail that the District would only authorize purchases from District employees who were given the authority to buy. Vendors were given a list of authorized District buyers. Selling to unauthorized buyers would result in nonpayment.
 - h. 05/20/09 – the District notified its personnel attorney of the fraudulent purchases.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Current Year Findings

9-1/Procurement-Disbursements (continued)

Response (continued)

- i. 06/09/09 – the District notified its independent auditor of the fraudulent purchases.
- j. 06/12/09 – the District Treasurer began compiling a list of vendors with which the employee would have had contact since his date of hire (05/01/06).
- k. 06/15/09 – a verbal Notice of Fraud Claim was filed by the District administrative officer with the District’s insurance carrier.
- l. 06/18/09 – a formal Notice of Fraud Claim was filed by the District administrative officer with the District’s insurance carrier.
- m. 06/29/09 – a final list of possible vendors, payments and supporting documentation was completed by the Treasurer and delivered to ER&T division manager and administrative officer for research and review. The Treasurer provided graphing analysis of each vendor purchases to assist the division manager and administrative officer in determining which vendors and purchases would be further investigated. 465 payment vouchers and supporting invoices were selected for further research and review.
- n. 06/29/09 – the District administrative officer filed an Initial Proof of Loss with the District’s insurance carrier.
- o. 07/13/09 – a letter from the District’s personnel attorney was hand-delivered to the terminated employee regarding misrepresentations of employment and attempts to use the District for personal benefit and gain.
- p. 07/15/09 – a letter from the terminated employee to the District’s personnel attorney was received. The terminated employee denied all accusations.
- q. 07/15/09 – the District received Acknowledgement of Sworn Statement of Proof of Loss from its insurance carrier.
- r. 08/01/09 – the District submitted an Adjusted Proof of Loss Statement with the its insurance carrier
- s. 08/13/09 – the District’s personnel attorney addressed the Board in executive session
- t. 08/24/09 – the District filed an incident report with the Albuquerque police department
- u. 10/23/09 – the District held a mandatory fraud prevention meeting conducted by the Chief Engineer. (See attached agenda and minutes pages 54 - 56).
- v. 10/28/09 – the District Treasurer notified in writing Mr. Hector Balderas, State Auditor of the fraud investigation and corrective action that included:
 - i. Review and evaluation of existing internal control procedures
 - ii. Review of supporting documents and signature verification
 - iii. Review and verification of invoices (see above)
 - iv. Mandatory meeting with District employees to discuss fraud prevention
- w. 11/13/09 – the ER&T division manager completed a research and review of 465 payment vouchers and supporting invoices.
- x. 11/16/09 – the District’s Chief Engineer, Treasurer, administrative officer and ER&T division manager met with the District’s personnel attorney to review the ER&T division manager’s findings and to discuss next step to be taken.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Current Year Findings

9-1/Procurement-Disbursements (continued)

Response (continued)

- y. 11/16/09 – The District’s Chief Engineer, Treasurer and administrative officer held a mandatory meeting with District staff to discuss purchasing procedures, receiving procedures, separation of duties, vehicle maintenance/work orders and employee identification. (See attached agenda page 57).
 - z. 11/23/09 – The District sent to Mr. Hector Balderas, State Auditor, and the District’s independent auditor, a letter of update concluding the District’s internal investigation with total estimated loss value.
 - aa. The District will schedule an appointment with the Albuquerque police department to submit a supplemental report and final internal investigation documents.
-
- When the Treasurer is not available to sign checks, the checks are signed by his authorized designate. The Treasurer always reviews supporting documentation upon his return to office.
 - When the Treasurer is out of the office, supporting documentation is available for the designate and other authorized signer should there be any question regarding payments.

AGENDA

FRAUD PREVENTION

PURCHASING AND MONEY HANDLING MEETING

OCTOBER 23, 2009

1. Introduction
2. Discussion on current issues
3. Internal Processes
 - a. Assessments
 1. Adjustments
 2. Approvals
 3. Money Handling
 - b. Purchasing
 1. Buying of Supplies, parts, etc.
 2. Receiving of items
 3. Audit trail verifying when parts are ordered for specific equipment and account for parts in the repair work order system.
 - c. Checks and Balances
4. Gratuities and Kick Backs
5. Questions

FRAUD PREVENTION
OCTOBER 23, 2009
MRGCD DISTRICT OFFICE

Those in attendance:

Subhas Shah	Sarah Avallone
Jeanette Bustamante	Raul Holguin
Steve Houser	Evelyn Bennett
Mary D'Ornellas	Leonard Utter
Joseph Baca	Jessie Zamora
Lawrence Troncosa	Gilbert Murillo
Rusty Swint	Mike Lopez
Johnny Mounyo	Tarah Trujillo
Russ Andrese	Raquel Otero
Jason Montoya	Estella Gamboa
Ashley Zamora	Charles Gurule
Lorenzo Benavidez	Leo Apodaca
Tom Magness	Melin Vargas
Erica Vargas	Carol Benavidez
Gilbert Montoya	Mary Aragon
Veronica Lopez	Lonnie Ben-Furr
Richard Deloia	

Mr. Shah called the meeting to order at 10:05AM.

1. Introduction
2. Discussion on Current Issues

Mr. Shah requested that those in attendance introduce themselves. He then gave a brief statement on some of the projects that the District is involved in and what would be undertaken in the coming months during the off season and would be concentrating on routine maintenance. Jeanette Bustamante said that the Belen Division Ditch Riders would be training in the coming months on a new system developed by David Gensler and Michael Carreon.

3. Internal Processes
4. Gratuities and Kick Backs

Mr. Shah reported that each year the District undergoes a very rigorous audit undertaken by an outside CPA firm. He said that there have been audit findings indicating that the District may not be in compliance with procurement policies. Mr. Shah stressed several times during the meeting that there needs to be checks & balances in each department and processes and that there must be a paper trail of all transactions. He reported that there was a situation that came to light recently wherein an employee had committed fraud and was stealing from the District. This was a situation that should have been caught and failed because the system of checks and balances was not being vigorously followed.

The following are bullet points that were discussed during the meeting

- The need for separation of responsibilities in respective areas.
- All transactions need a signature of approval. Authorized signers need to sign their own name. If signed by others, then indicated on transaction.
- Authorized signers need to designate someone in their absence.
- Audit trail on parts. If part was purchased for a particular piece of equipment, then it should be placed on the equipment that it was intended for.
- When receiving products/equipment, count what you receive, ensure that it is the right thing that was ordered, sign, date and place an employee number on the document.
- Turn in complete invoices timely – Accounting prefers daily basis.
- Inspect products/equipment received. It's difficult to return/exchange and there's many time when products/equipment set in inventory and cannot be used and therefore wastes taxpayers money.
- Invoices – managers are responsible for purchases. Check invoice prior to signing to ensure that it is valid.

- Letter sent by Purchasing to all MRGCD vendors indicating that if the invoice/receipt did not include a name or date, the MRGCD would not take the responsibility for payment.
- There must be a list of authorized signers. When someone on that list leaves, then a revised list is issued.
- A note will be issued to vendors when an authorized signer leaves the MRGCD.
- There was a request for the SOP for purchasing.
- The new financial system will be implemented in the near future and this system will interface with other departments to ensure those products/equipment are followed through. This new system will handle many of the problems that are being experienced at this point.
- Rather than pointing fingers, figure out best way for the system and ensure that there are checks and balances.
- Accounting to advise divisions when new equipment is added to fixed asset system
- Products/equipment needs to be accounted for from beginning to end.
- Fuel also needs to be accounted for. Employees need to be responsible and ensure that it is going into District vehicles and not private vehicles.
- If more than one vehicle is being fueled, then there needs to be a transaction for each piece.
- Managers need to do a random check on odometer reports. Make note if odometer report seems peculiar.
- Managers should review, check and verify against gas ticket.
- Document all issues that do not seem to be in line with policy.
- When equipment leaves, is it checked out? If so, is it checked in and verified?
- Limit employees who purchase.
- Signers need to be accountable for purchases. Those who pick up product/equipment must sign, date and include employee number on each transaction.
- Check to ensure that product is going to designated location.
- If an employee wants to do something illegal, they will probably do it. If checks and balances are in place, they will be caught.
- Invoices should be attached to work orders that go into the work order system.
- Employees need to be respectful of equipment. There is no place for abuse and carelessness of MRGCD property. If employees are consistently abusive of equipment, then they may have pay for those damages.
- Employees taking money, etc. for doing favors. This is not allowed and needs to be reported. When all facts are in place, the employee will be contacted and dealt with.
- Employees not accept anything from vendors or do favors that might be misconstrued.
- Employees must not place themselves in situations for accepting favors or kickbacks.
- Managers should delegate authorities to supervisors for checking invoices and work orders. Managers should not sign requisitions/invoices/work orders without reviewing and knowing what they are signing.
- Refuse shipments of products/materials/equipment if it does not meet specs and make notations on shipping orders.
- Parts going out of yard should be signed out of inventory and should be included on work orders.
- Auditors can and might go into field to ensure the equipment/products were purchased and are inventory or on designated equipment.
- There should be a paper trail for all products and equipment.
- In the Assessments Department any adjustment needs to be approved and approvals require two signatures.
- Cash always checked in by one person and verified by another person.
- Always a paper trail when dealing with cash.
- Notes are made to the file on any adjustments made.
- Petty cash in Divisions needs to be more accountable.
- Collection and balancing should be separate duties and not handled by one person.
- Report anything that doesn't seem to be in compliance.
- Checks and balances with all transactions and in all department.

Meeting was adjourned at 11:40AM

**MEETING WITH ACCOUNTING, PURCHASING, ER&T,
DIVISION MANAGERS AND CLERKS**

MONDAY, NOVEMBER 16, 2009

AGENDA

- 1. PURCHASING PROCEDURES**
 - a. All Purchases will require a Request**
 - b. All request MUST have proper Approvals and must be signed and dated**
 - c. Vehicle Parts MUST include a Work Order No.**
 - d. Request MUST include a Justification**
 - e. Request MUST have Complete Description of the vehicle, equipment and or job.**

- 2. RECEIVING**
 - a. inspect merchandise**
 - b. verify quantity**
 - c. account for the quantity**
 - d. sign**
 - e. date**

- 3. SEPARATION OF DUTIES**
 - a. Purchasing and Receiving Duties “MUST” be separated**
 - b. Managers must provide Russ Andrese, Steve Houser and Veronica Lopez a formal list of your primary buyer, alternate buyer(s). Also include who are the employees who will be authorized to pick up parts**

- 4. VEHICLE MAINTENANCE/WORK ORDERS**
 - a. Mechanics MUST create a work order for all repairs**
 - b. All parts used whether ordered or issued MUST be documented on the employees work order**
 - c. Any field operations that require materials to complete a job MUST be documented on the work order.**
 - d. Attach all copies of the invoice or issue receipt from inventory**
 - e. Clerks entering the vehicle maintenance or field work orders must enter all materials used to complete the job whether issued from inventory or out-right purchases.**

- 5. EMPLOYEE IDENTIFICATION**
 - a. ALL FIELD EMPLOYEES “MUST” use the MRGCD issued uniforms**
 - b. ALL FIELD EMPLOYEES “MUST” have their badge visible at all times**
 - c. ANY EMPLOYEE authorized to pick up materials, parts, etc., must show their employee badge, document badge #, sign and print their name and date.**

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

Current Year Findings

9-2/Travel and Per Diem

Condition

During our test of travel and per diem reimbursements we noted the following:

- One instance where a reimbursement for \$187 was made based on an affidavit for lost receipts which was not signed by the employee.
- One instance where a reimbursement for \$11 was made based on an affidavit for lost receipts which was signed by the employee, but not signed by the agency head.

Criteria

State travel and per diem regulations state that where the loss of receipts by an employee would create a hardship, an affidavit from the employee attesting the expense may be substituted for actual receipts. The regulations further state that the affidavit must include the signature of the agency head or governing board.

Effect

The District has not fully complied with the travel and per diem regulations.

Cause

The District's per diem, mileage and expense reimbursement policy incorporates the per diem and mileage act, but the policy does not restate all the regulations. Employees may not be aware of all the requirements of the travel and per diem regulations.

Recommendation

The District should ensure that managers who are responsible for approving reimbursement requests for travel and per diem are aware of required signatures.

Response

- The District Treasurer will ensure that signatures are in place before authorizing payment disbursement.
- The District Treasurer will ensure that signatures are in place before authorizing payment disbursement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Prior Year Findings

None

Current Year Findings

None

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
EXIT CONFERENCE
JUNE 30, 2009

An exit conference was held on November 24. Attending were:

Middle Rio Grande Conservancy District

Janet Jarratt, Chairman
Augusta Meyers, Board Member
Chris Sichler, Board Member
Subhas Shah, Chief Executive Officer
Jeanette Bustamante, Administrative Officer
Steven Houser, Secretary/Treasurer

Mackie, Reid & Company

Jim Van Der Geest, CPA
Annette Gruber, CPA

Financial Statement Preparation

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