

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2010

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
TABLE OF CONTENTS
JUNE 30, 2010

INTRODUCTORY SECTION

	<u>Page</u>
Official Roster	i

FINANCIAL SECTION

Independent Auditors' Report	1-2
Management's Discussion and Analysis.....	3-9
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	15
Budgetary Comparison Schedule Budget to Actual (Non-GAAP Budgetary Basis) General Fund	16
Notes to the Financial Statements	17-31
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.....	41-53
Federal Award Findings and Questioned Costs.....	54-56
Exit Conference	57

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
OFFICAL ROSTER
JUNE 30, 2010

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

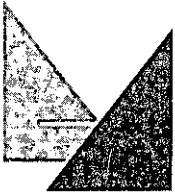
Honorable William Parnall	Division No. 1
Honorable Stan Whitaker	Division No. 2
Honorable M. Monica Zamora	Division No. 3
Honorable Beatrice Brickhouse	Division No. 4
Honorable Ted Baca	Division No. 5
Honorable Neil Candelaria	Division No. 6
Honorable John J. Romero, Jr.	Division No. 7
Honorable Ross 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 Jacqueline D. Flores	Division No. 20
Honorable Angela A. Jewell	Division No. 21
Honorable Deborah Davis Walker	Division No. 22
Honorable Shannon Bacon	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, 2010, 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 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.

In our opinion, 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, 2010, 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 22, 2010, 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the schedule of funding progress for the retiree health and dental insurance plan on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Middle Rio Grande Conservancy District's financial statements as a whole. 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 also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mackie, Reid & Company

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

Albuquerque, New Mexico
November 22, 2010

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

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, 2010. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 11), provide information about the District as a whole and presents a longer term view of the District's finances. Fund financial statements start on page 12. 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 \$259,000 or .54% for the year ended June 30, 2010 when compared to June 30, 2009.
 - Fiscal year 2010 total assets decreased by \$645,000 due in large part to a substantial decrease of \$2.9 million in governmental contracts receivables, operating grants receivable and the long-term U.S. Army Corp of Engineers receivable. Cash on hand, local government investment pool and the reserve contingency fund increased by \$1.3 million. The District completed the Albuquerque West Levee Project resulting in a decrease in construction in progress by \$5.97 million and a subsequent increase in depreciable property and equipment of \$5.97 million; this, and the purchase of additional fixed assets resulted in a substantial increase in net depreciable property and equipment of \$6.74 million. Land remained unchanged.
 - Total liabilities decreased by \$903,000, due to a significant decrease in vouchers payable of \$972,000 and a decrease in the long-term payable to local governments of \$528,000. Long-term payable to local governments of \$974,000 represents the amount due to the Albuquerque Metropolitan Arroyo Flood Control Authority and Bernalillo County based on the long-term U.S. Army Corp of Engineers receivable agreement with respect to the Albuquerque West Levee Project. Accrued payroll and related benefits payable increased by \$77,000. Obligation for post-employment benefits payable after one year increased by \$497,000 and (see Note 12 to the financial statements, Annual Expense and Obligation).
- Program generated revenues totaled \$ 4.2 million for the year ended June 30, 2010, a decrease of \$3.3 million or 44% when compared to June 30, 2009.
 - Water service assessments revenue remained relatively stable with a slight increase of .7%. Contract revenue from governmental entities decreased by \$3.5 million, due in large part to the completion of the Albuquerque West Levee Project and subsequent decrease in revenue of \$2.9 million. Other revenue increased by \$58,000; capital grants revenue (Water 2025) increased by \$128,000, while operating grants decreased by \$18,000.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

FINANCIAL HIGHLIGHTS (continued)

- Program related expenditures totaled \$16.7 million for the year ended June 30, 2010, a decrease of \$56,000 or .33% when compared to June 30, 2009.
 - Personnel Services (payroll) increased by \$182,000 or 2.6% due to cost of living and merit increases for the year ending June 30, 2010. Employee benefits increased by \$207,000 largely due to increased healthcare costs. Contractual operating and maintenance service, or the District's shared cost to maintain the Bureau of Reclamation's El Vado and San Juan Chama facilities increased \$128,000. Field expenses decreased by \$253,000. General and administrative expenses decreased by \$435,000. Depreciation expense increased by \$200,000 due largely to the completion and placing in service of the Albuquerque West Levee and the addition of Water 2025 irrigation gates. With the completion of the Water 2025 project, internal cost capitalized (cost of installing Water 2025 gates) increased by \$85,000 when compared to 2009.
- General revenues totaled \$12.8 million for the year ended June 30, 2010, an increase of \$250,000 or 2% when compared to June 30, 2009. Ad valorem assessment revenue increased by \$35,000 largely due to the increased collections in Bernalillo County. Interest revenue decreased by \$125,000 due to overall economic conditions. Otherwise there were no significant or material changes.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The analysis of the District as a whole begins on page 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES (continued)

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.

FINANCIAL ANALYSIS

Statement of Net Assets:

Total assets at June 30, 2010 when compared to 2009 were \$52,026,230 and \$52,671,067 respectively. The District held land and capital assets of \$20,634,001 and \$19,859,618 net of accumulated depreciation of \$11,517,264 in 2010 and \$10,934,911 in 2009. (Additions to capital assets are further explained in Notes to the Financial Statements, Note 8 - Capital Assets) The total remaining assets decreased to \$31,392,229 as of June 30, 2010 when compared to \$32,811,449 as of June 30, 2009, mostly due to the decrease in the long-term U.S. Army Corp of Engineers receivable of \$1,334,042. Total liabilities as of June 30, 2010 and 2009 were \$4,187,873 and \$5,091,297; with current liabilities of \$1,453,736 compared to fiscal year 2009 of \$2,341,522. This significant change was primarily due to a decrease in vouchers payable of \$971,573 when compared to fiscal year 2009. Total long-term liabilities remained relatively unchanged with balances as of June 30, 2010 and 2009 of \$2,734,137 and \$2,749,775 respectively. Payables to local governments, due after one year was roughly offset by the increase in obligations for post employment benefits payable after one year and a slight increase in accrued compensated absences payable after one year. As of June 30, 2010 net assets included unrestricted net assets of \$27,204,355 and \$20,634,001 invested in capital asset. 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 a result, June 30, 2010 total net assets increased by \$258,587 when compared to June 30, 2009.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

FINANCIAL ANALYSIS (continued)

Statement of Activities:

Total revenues for the years ended June 30, 2010 and 2009 were \$16,963,102 and \$20,030,046, respectively. This included general revenues of \$12,801,071 in 2010 and \$12,550,690 in 2009, a net improvement of 2%. Program revenues decreased by \$3.3 million or 44%; with 2010 program revenues totaling \$4,162,031 compared to \$7,479,356 in 2009. This decrease was due in large part to the completion of the Albuquerque West Levee project and a subsequent reduction in Albuquerque West Levee revenue of \$2.9 million when compared to 2009. As a direct result, Contract Revenue from Governmental Entities decreased substantially from \$5.3 million in 2009 to \$1.8 million in 2010. Total program expenses remained relatively unchanged in 2010 when compared to 2009 with 2010 expenses totaling \$16,704,515 and 2009 totaling \$16,760,460 or a net decrease of .33%. Water service assessment revenue remained relatively unchanged with June 30, 2010 revenues of \$1,609,809 compared to June 30, 2009 revenues of \$1,598,653. Ad valorem revenue for fiscal year 2010 increased 3.0% when compared to fiscal year 2009 with revenues of \$12,431,689 and \$12,078,448 respectively. The District completed the Water 2025 grant program and as a result Water 2025 (capital grant) revenue for fiscal year 2010 increased by \$127,853 with 2010 Water 2025 revenue of \$406,534 and 2009 revenue of \$278,681. Interest investment revenue was substantially lower due to the continued general overall decline in global economic conditions with fiscal year 2010 revenue of \$64,647 compared to fiscal year 2009 revenue of \$190,057. Net assets for 2010 were \$47,838,357 compared to \$47,579,770 for 2009 or a modest increase of .54%.

Balance Sheet: Governmental Funds:

Total assets decreased \$1.4 million or 4.4% with June 30 2010 total assets of \$31,411,342 and June 30, 2009 total assets of \$32,843,013. This decrease was due largely by the decrease in long-term Contract Receivables – U.S. Army Corp of Engineers of \$1.3 million when compared to June 30, 2009. Total liabilities decreased by \$3.1 million or 29.4% due to the significant reduction in deferred revenue of \$3,130,553 when compared to 2009; and particularly the reduction of deferred Albuquerque West Levee revenue of \$2.3 million when compared to June 30, 2009. The net effect to the changes in total assets and total liabilities resulted in a net increase in total equity of \$1.6 million or 7.2% with total equity of \$24,077,699 at June 30, 2010 and \$22,457,742 at June 30, 2009.

Statement of Revenues, Expenditures, and Changes in Fund Balance: Governmental Funds:

Net change in 2010 revenue was a modest \$280,605 when compared to 2009 with total 2010 revenue of \$18,543,101 compared to \$18,262,496 for 2009. Total Ad valorem assessments increased by \$485,230 with the Bernalillo County showing an increase of \$467,966 when compared to 2009. Total Investment Income decreased by \$125,410 due to the current state of the global economy. Contract revenue from governmental entities increased by \$514,495; the greatest increase was seen in BIA Pueblos revenue of \$1,340,631 and the greatest decrease, due to its completion, was seen in Albuquerque West Levee revenue of \$809,466. There was a significant decrease in 2010 expenditures when compared to 2009. 2010 total expenditures were \$16,999,470 compared to \$22,170,760 in 2009. Capital outlays for 2010 decreased by \$5,006,893 with significant decreases in construction in progress due to completion of the Albuquerque West Levee, heavy field equipment and vehicles and a significant increase was seen in infrastructure. Fund balance increased by \$1,619,957 or 7.2% with 2010 fund balance of \$24,077,699 compared to the 2009 fund balance of \$22,457,742.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

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 the District's Governing Board and 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.

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, 2010 and 2009, the District budgeted expenditures to exceed revenues \$2,531,362 and \$7,674,887 respectively. Reserves of cash and investments were used to complete the budget process.

Budget to Actual (Non-GAAP Budgetary Basis) General Fund:

For the year ended June 30, 2010, actual revenues were \$18,526,816 which exceeded budgeted revenues by \$2.93 million. Favorable variances included ad valorem assessments of \$1,024,501, delinquency charges of \$59,374, contract revenue from governmental entities of \$2,255,505, operating and capital grants of \$226,939, and other revenue of 164,784. Unfavorable variances included water service assessments of \$531,298 and interest revenue of \$268,091.

For the year ended June 30, 2010, actual expenditures were \$16,630,401 which was less than budgeted expenditures by \$1,496,063. Favorable variances included personnel services of \$683,050, employee benefits of \$291,085, contractual operating and maintenance services of \$1,983, Field Expenses of \$316,443, and General and Administration expenses of \$341,033. Unfavorable variances included Capital Outlay Expenses of \$137,531.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2010 and 2009, the District owned \$32,151,265 and \$30,794,529 respectively, of land and capital assets. This included \$14,332,928 in 2010 and \$14,194,856 in 2009 invested in equipment and vehicles; \$3,462,439 in 2010 and \$3,444,457 in 2009 invested in land and buildings; \$981,364 in 2010 and \$974,448 in 2009 invested in office furniture and related equipment. 2010 transfers between categories of capital assets included the completion of the Albuquerque West Levee project, resulting in the reclassification of \$5,974,828 from construction in progress to infrastructure. 2010 construction in progress includes only the Bernardo Siphon project at \$202,785. 2009 construction in progress was \$6,177,613 which included the Albuquerque West Levee and Bernardo Siphon projects. Additions to capital assets for the fiscal years ended June 30, 2010 and 2009 were \$2,114,702 and \$7,036,577 respectively. Major additions for the current fiscal year included \$133,196 of computer software; \$332,750 in vehicles and trailers; \$480,996 in heavy field equipment; and \$1,060,570 in infrastructure. Deletions for the fiscal years ended June 30, 2010 and 2009 were \$757,966 and \$1,696,606 respectively.

Ending accumulated depreciation as of June 30, 2010 and 2009 was \$11,517,264 and \$10,934,911 respectively. Net book value of capital assets was \$20,634,001 as of June 30, 2010 and \$19,859,618 as of June 30, 2009.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

There were no new capital leases for the year ended June 30, 2010 or 2009. Principal repayments on capital lease obligations for the year ending June 30, 2010 and 2009 were \$4,476 and \$52,433 respectively. All capital leases were paid in full in 2010.

DISTRICT HIGHLIGHTS

Senate Memorial 21 Task Force 2009 and 2010

NM State Senator Dede Feldman, District 13, crafted Senate Memorial 21 during the 49th session of the NM State Legislature. The Memorial instructed the MRGCD to convene a Task Force charged with studying the electoral process for the District and to recommend any necessary changes in the process to the Board, the Governor, the appropriate interim Legislative Committee, and the first session of the fiftieth legislature.

The first meeting was held at the MRGCD District office on March 17, 2010 and six meetings have been held since that date. The Task Force had three preliminary recommendations which the Board adopted and the draft final report with recommendations will be presented to the MRGCD Board at its meeting of December 13th and from there to the Fiftieth Legislature in 2011.

Albuquerque West Levee Project Completion and Ribbon Cutting November 2009

The Albuquerque West Levee is a 3.2 miles reach in the South Valley that is a non-engineered, spoil bank, non-certifiable levee. The MRGCD Board listened to public needs and made a bold decision to construct the levee in record time (two years) with local funds. The new levee meets U.S. Corps of Engineer design standards and complies with FEMA requirements, providing South Valley residents not only with much needed flood protection from the Rio Grande, but also, since the District has certified the levee to FEMA, a reduction in flood insurance premiums once FEMA revises their maps. The levee was constructed for a total cost of \$6.5 million, with the MRGCD expending \$4.5 million and the Albuquerque Metropolitan Arroyo Flood Control Authority and Bernalillo County contributing \$1 million each.

The ribbon cutting ceremony was held on November 23, 2009 and there were several state and local dignitaries in attendance. There were speeches, the ribbon cutting ceremony, and refreshments served along the banks of the levee.

Water 2025 Federal Grant Program Completion December 2009

The District's largest federal grant project, Water 2025 was completed December 2009. The 4 year project improved, modernized and increased water conveyance efficiency through system automation, water measurement and water management improvements within the Middle Rio Grande Valley. Approximately 40 new gate structures with state of the art telemetry and 2.5 miles of concrete lined canals were installed. The total cost of the project was \$7.2 million and was cost shared on a 50/50 basis with the U.S. Bureau of Reclamation.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

DISTRICT HIGHLIGHTS (continued)

Installation of New Munis Accounting System:

The District implemented a new financial accounting system and went live in May 2010. Tyler Technologies, Inc. was selected from three major accounting software vendors. Implementation of the MUNIS Financial Accounting Solution, ERP software consisted of financial accounting modules including general ledger, accounts payable, accounts receivable, inventory, purchasing, fixed assets, grants and contracts, and budgeting. FY11 implementation will include payroll, human resources, work orders and fleet maintenance. The new system replaced a Legacy system that was more than 20 years old.

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, 2010

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,394,112
Investments:	
Local Government Investment Pool	21,281,639
Reserve Contingency Fund	20,915
Current receivables, net:	
Interest	3,036
Ad valorem assessments, net of allowance of \$105,000	1,965,323
Water service and delinquency charges, net of allowance of \$189,000	355,048
Governmental entities	1,202,742
Operating grants	6,428
Other	3,442
Prepaid expenses	38,929
Material and supply inventories, at cost	973,235
Contract receivable from U.S. Department of the Army, due after one year	3,147,380
Capital assets:	
Land	457,172
Depreciable property, equipment, and infrastructure, net of accumulated depreciation	<u>20,176,829</u>
Total assets	<u>52,026,230</u>
Liabilities	
Vouchers payable	564,455
Accrued payroll and related benefits payable	450,805
Other liabilities	42,907
Accrued compensated absences:	
Payable within one year	395,569
Payable after one year	390,619
Payable to local governments, due after one year	973,770
Obligation for postemployment benefits, payable after one year	<u>1,369,748</u>
Total liabilities	<u>4,187,873</u>
Net assets	
Invested in capital assets	20,634,001
Unrestricted	<u>27,204,356</u>
Total net assets	<u>\$ 47,838,357</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	<u>Governmental Activities</u>
Program Expenses	
Public Works:	
Personnel services	\$ 7,118,638
Employee benefits	3,601,893
Contractual operating and maintenance services	683,569
Field expenses	2,162,725
General and administrative expenses	1,989,270
Depreciation	1,312,481
Internal costs capitalized	<u>(164,061)</u>
Total program expenses	<u>16,704,515</u>
Program revenues	
Charges for services:	
Water service assessments	1,609,809
Contracts with governmental entities	1,825,597
Other revenue	214,058
Capital grant	406,534
Operating grants	<u>106,033</u>
Total program revenues	<u>4,162,031</u>
Net program expense	<u>(12,542,484)</u>
General revenues	
Ad valorem assessments	12,431,689
Delinquency charges	166,374
Investment income	64,647
Gain on equipment and property removal	48,488
Water bank leases	<u>89,873</u>
Total general revenues	<u>12,801,071</u>
Increase in net assets	258,587
Net assets, beginning of year	<u>47,579,770</u>
Net assets, end of year	<u>\$ 47,838,357</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,534,531	\$ 859,581	\$ 2,394,112
Investments:			
Local Government Investment Pool	14,698,116	6,583,523	21,281,639
Reserve Contingency Fund	14,738	6,177	20,915
Current receivables, net:			
Interest	3,036	-	3,036
Ad valorem assessments, net of allowance of \$105,000	1,965,323	-	1,965,323
Water service and delinquency charges, net of allowance of \$189,000	355,048	-	355,048
Governmental entities	1,202,742	-	1,202,742
Operating grants	6,428	-	6,428
Interfund receivable	-	19,113	19,113
Other	3,442	-	3,442
Prepaid expenses	38,929	-	38,929
Material and supply inventories, at cost	973,235	-	973,235
Contract receivable from U.S. Department of Army, due after one year	<u>3,147,380</u>	-	<u>3,147,380</u>
Total assets	\$ <u>23,942,948</u>	\$ <u>7,468,394</u>	\$ <u>31,411,342</u>
Liabilities and fund balances			
Liabilities			
Vouchers payable	\$ 564,455	\$ -	\$ 564,455
Accrued payroll and related benefits payable	450,805	-	450,805
Interfund payable	19,113	-	19,113
Other liabilities	42,907	-	42,907
Payable to local governments, due after one year	973,770	-	973,770
Deferred revenue	<u>5,282,593</u>	-	<u>5,282,593</u>
Total liabilities	<u>7,333,643</u>	<u>-</u>	<u>7,333,643</u>
Fund balances			
Nonspendable			
Inventories	973,235	-	973,235
Prepaid expenses	38,929	-	38,929
Committed	-	7,120,291	7,120,291
Assigned	5,026,650	348,103	5,374,753
Unassigned	<u>10,570,491</u>	-	<u>10,570,491</u>
Total fund balances	<u>16,609,305</u>	<u>7,468,394</u>	<u>24,077,699</u>
Total liabilities and fund balances	\$ <u>23,942,948</u>	\$ <u>7,468,394</u>	\$ <u>31,411,342</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, 2010

Total fund balances (Balance sheet)		\$ 24,077,699
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.		20,634,001
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.		5,282,593
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Accrued compensated absences	\$ (786,188)	
Obligation for postemployment benefits	(1,369,748)	
Total liabilities		(2,155,936)
Total net assets (Statement of net assets)		\$ <u>47,838,357</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, 2010

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem assessments	\$ 12,302,907	\$ -	\$ 12,302,907
Water service assessments	1,591,683	-	1,591,683
Delinquency charges	166,374	-	166,374
Investment income	61,909	2,738	64,647
Contracts with governmental entities	3,512,757	-	3,512,757
Capital grant	471,806	-	471,806
Operating grants	128,996	-	128,996
Water bank leases	-	89,873	89,873
Other	<u>214,058</u>	<u>-</u>	<u>214,058</u>
 Total revenues	 <u>18,450,490</u>	 <u>92,611</u>	 <u>18,543,101</u>
Expenditures			
Public works:			
Current operations	15,044,353	-	15,044,353
Capital outlays	1,950,641	-	1,950,641
Debt service:			
Obligations under capital lease:			
Principal	<u>4,476</u>	<u>-</u>	<u>4,476</u>
 Total expenditures	 <u>16,999,470</u>	 <u>-</u>	 <u>16,999,470</u>
 Excess of revenues over expenditures	 1,451,020	 92,611	 1,543,631
Other financing sources			
Equipment disposition proceeds	<u>76,326</u>	<u>-</u>	<u>76,326</u>
 Increase in fund balances	 1,527,346	 92,611	 1,619,957
 Fund balances, beginning of year	 <u>15,081,959</u>	 <u>7,375,783</u>	 <u>22,457,742</u>
 Fund balances, end of year	 \$ <u>16,609,305</u>	 \$ <u>7,468,394</u>	 \$ <u>24,077,699</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, 2010

Increase in fund balances (Statement of revenues, expenditures and changes in fund balances)	\$ 1,619,957
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.	2,114,702
Governmental funds do not report depreciation expense which is recorded in the statement of activities.	(1,312,481)
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.	(27,838)
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.	(1,628,488)
Governmental funds do not report the net change in compensated absences.	(14,925)
Governmental funds report the repayment of capital lease obligations.	4,476
Governmental funds do not report the net change in obligation for other postemployment benefits.	(<u>496,816</u>)
Increase in net assets (Statement of activities)	\$ <u>258,587</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 11,278,406	\$ 11,278,406	\$ 12,302,907	\$ 1,024,501
Water service assessments	2,122,981	2,122,981	1,591,683	(531,298)
Delinquency charges	107,000	107,000	166,374	59,374
Investment income	330,000	330,000	61,909	(268,091)
Contracts with governmental entities	1,257,252	1,257,252	3,512,757	2,255,505
Operating and capital grants	373,863	373,863	600,802	226,939
Other	<u>125,600</u>	<u>125,600</u>	<u>290,384</u>	<u>164,784</u>
 Total revenues	 <u>15,595,102</u>	 <u>15,595,102</u>	 <u>18,526,816</u>	 <u>2,931,714</u>
Expenditures				
Current operations				
Personnel services	7,786,763	7,786,763	7,103,713	683,050
Employee benefits	3,396,162	3,396,162	3,105,077	291,085
Contractual operating and maintenance services	685,552	685,552	683,569	1,983
Field expenses	2,493,081	2,493,081	2,176,638	316,443
General and administration expense	2,268,726	2,268,726	1,927,693	341,033
Capital outlays	<u>1,496,180</u>	<u>1,496,180</u>	<u>1,633,711</u>	<u>(137,531)</u>
 Total expenditures	 <u>18,126,464</u>	 <u>18,126,464</u>	 <u>16,630,401</u>	 <u>1,496,063</u>
 Excess(deficiency) of revenues over expenditures	 \$ (<u>2,531,362</u>)	 \$ (<u>2,531,362</u>)	 \$ <u>1,896,415</u>	 \$ <u>4,427,777</u>
 Prior year fund balance budget basis	 \$ <u>13,848,425</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, 2010

(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; if any, restricted net assets (none held at June 30, 2010), 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, 2010

(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, 2010. 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 proceeds 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(2) Summary of Significant Accounting Policies (continued)

(d) Basis of Accounting (continued)

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

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

(e) Inventories

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

(f) Capital Assets

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

The majority of the District's infrastructure was constructed or acquired prior to July 1, 1980, and in accordance with GASB Statement 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. In addition, the majority of the District's intangible assets, consisting primarily of water rights, was acquired prior to July 1, 1980, and in accordance with GASB Statement 51, has not been valued.

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 as land and at estimated historical costs.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(2) Summary of Significant Accounting Policies (continued)

(f) Capital Assets (continued)

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
Computer Software	7 years
Engineering equipment	10 years
Communication equipment	10 years
Motor vehicles and trailers	6-10 years
Weed and pest control equipment	5-10 years
Heavy field equipment	15 years
Shop and field equipment	10 years
Infrastructure	20-50 years

(g) Compensated Absences

Qualified employees are entitled to accumulate annual leave which is payable to the employee upon termination or retirement. Employees earn annual leave at the rate of twelve days per year for the first five years of service, eighteen days per year for service of five to twenty years, and twenty four days per year for over twenty years of service. The maximum accrual of annual leave is 240 hours unless approved by the District's Chief Engineer. At June 30, 2010, accrued vested annual leave totaled \$533,246.

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, 2010, accrued vested sick leave totaled \$236,628.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2010, accrued vested compensatory leave totaled \$16,314.

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 12 to the financial statements, the District provides postemployment benefits (OPEB) to qualifying employees upon their retirement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(2) Summary of Significant Accounting Policies (continued)

(i) Deferred Compensation Plan

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

(j) Capital Lease Obligations

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

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

(k) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss, including workers' compensation insurance. Settled claims, excluding insurance deductibles, resulting from these risks have not exceeded commercial insurance coverage during the years ended June 30, 2010, 2009 and 2008, respectively.

(l) Fund Balances

Effective July 1, 2009, the District has adopted GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The standard establishes and defines the following categories:

- Nonspendable – amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – amounts that are restricted to specific purposes either externally imposed by creditors, grantors or laws or regulations or imposed by law through constitutional provisions or enabling legislation.
- Committed – amounts that can only be used for specific purposes pursuant to formal action of the government's highest decision making authority.
- Assigned – amounts that are intended to be used for specific purposes, but are neither restricted nor committed.
- Unassigned – remaining general funds balances not restricted, committed, or assigned.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(2) Summary of Significant Accounting Policies (continued)

(l) Fund Balances (continued)

The District's Board of Directors is its highest level of decision-making authority. In order to establish committed fund balances, the Board would be required to take formal action, such as passing a Board resolution. Management of the District is authorized to designate fund balances that the District intends to use for specific purposes.

As of June 30, 2010, the general fund assigned fund balance includes the amount necessary to balance the budget for the year ended June 30, 2011 (\$2,560,335), and in accordance with state budget guidance an amount equal to 1/12 of budgeted expenditures for the year ended June 30, 2011 (\$1,601,849), and the amount of encumbered funds pertaining to the budget for the year ended June 30, 2010 (\$864,466). The special revenue assigned fund balance includes accumulated amounts from collections on District water bank leases.

The District through Board Resolution has earmarked funds received from the sale of excess District land to form an endowment for the District. The special revenue fund balance of \$7,120,291 has been reported as a committed fund balance.

(m) 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.

(n) 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(3) Stewardship, Compliance and Accountability

For the year ended June 30, 2010, general fund budgeted expenditures exceeded budgeted revenues by \$2,531,362. Prior year cash and investment balances for 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.

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, 2010, the carrying amount of the District's cash deposits was \$886,381 and the bank balance on these accounts was \$1,269,060. Funds in the amount of \$769,060 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, 2010, the carrying amount of the District's repurchase agreement was \$1,506,731. The fair market value of the purchased federal agency securities amounted to \$1,536,865. 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's investment policy does not formally address investment interest rate and credit risks.

The District's investment in the Local Government Investment Pool at June 30, 2010 consists of two accounts in the New Mexico State Treasurer's Local Government Investment Pool (Pool). Participation in the Pool is voluntary. Investments (\$21,281,639) are stated at fair value based on quoted market value as of June 30, 2010.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(5) Investments (continued)

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, NMSA 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, 2010, the Pool's WAM is 50 days.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2010, 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 \$13,939 during the year ended June 30, 2010. The total interest earned in the Pool was \$40,046 for the year ended June 30, 2010.

As of September 30, 2010, the Pool was still rated AAAM by Standard & Poor's and the Pool's WAM amounted to 53 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 an investment loss of \$86,342, representing a write down of the Fund to its fair value based on estimated future liquidating distributions. During the year ended June 30, 2010, the District received liquidating distributions and recorded an investment income gain of \$20,996, to adjust the fair value of the Fund based on estimated future liquidating distributions. As of June 30, 2010, the estimated fair value of the District's investment in the Fund is \$20,915.

(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, 2010, 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(6) Water Service and Ad Valorem Assessments (continued)

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, 2010, water service assessments were assessed and levied at a uniform rate per acre of \$28.00 based on acreage approximating 56,000 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.

(7) Contract Receivable

In October, 2007, the District entered into agreements with the U. S. Department of the Army (government) under which the District designed and constructed improvements to the Albuquerque west levee (levee) which will enable the levee to be certified to the U. S. Army Corps of Engineers. The total cost of the project was \$6,463,173, which is included in infrastructure in the accompanying statement of net assets. The 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. During the year ended June 30, 2010, the District recognized \$368,273 of contract revenue from the government in the accompanying statement of activities, representing the government's 75% cost share of the District's expenditures during the year ended June 30, 2010. During the year ended June 30, 2010, the government reimbursed the district \$1,700,000. The remaining balance due from the government of \$3,147,380 is reported in the accompanying statement of net assets and balance sheet as a contract receivable due after one year since it is expected that the remaining funds will be appropriated over a number of budget years subsequent to June 30, 2010.

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 project cost. The agreement states at such time as the District is reimbursed by the government for the federal share of the project cost, AMAFCA and County will receive a pro rata share of the reimbursement. During the year ended June 30, 2010, the District remitted \$425,000 and recorded an additional payable of \$100,980 to AMAFCA and County representing their share of the reimbursement received from the government. The payable is included in vouchers payable in the accompanying statement of net assets and balance sheet. A payable to AMAFCA and County in the amount of \$973,770, due after one year, is included in the accompanying statement of net assets and balance sheet. It represents AMAFCA and County's share of the contract receivable from the government described above.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(8) Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Transfers	Increases	Decreases	Balance June 30, 2010
Capital assets:					
Land	\$ 457,172	\$ -	\$ -	\$ -	\$ 457,172
Buildings and improvements	2,987,285	-	23,151	5,169	3,005,267
Office furniture and equipment	974,448	-	28,382	21,466	981,364
Computer software	-	-	133,196	-	133,196
Engineering equipment	125,919	-	-	-	125,919
Communication equipment	12,845	-	-	-	12,845
Motor vehicles and trailers	5,634,849	-	332,750	263,276	5,704,323
Weed and pest control equipment	318,559	-	40,967	14,150	345,376
Heavy field equipment	7,935,843	-	480,996	453,905	7,962,934
Shop and field equipment	166,841	-	14,690	-	181,531
Infrastructure	6,003,155	5,974,828	1,060,570	-	13,038,553
Construction in progress	<u>6,177,613</u>	<u>(5,974,828)</u>	-	-	<u>202,785</u>
Total capital assets	<u>30,794,529</u>	-	<u>2,114,702</u>	<u>757,966</u>	<u>32,151,265</u>
Less accumulated depreciation:					
Buildings and improvements	1,085,018	-	64,566	724	1,148,860
Office furniture and equipment	804,596	-	35,621	21,466	818,751
Computer software	-	-	2,077	-	2,077
Engineering equipment	124,227	-	864	-	125,091
Communication equipment	11,314	-	291	-	11,605
Motor vehicles and trailers	4,116,923	-	401,473	263,276	4,255,120
Weed and pest control equipment	259,070	-	17,010	14,150	261,930
Heavy field equipment	3,876,317	-	445,249	430,512	3,891,054
Shop and field equipment	132,429	-	8,070	-	140,499
Infrastructure	<u>525,017</u>	-	<u>337,260</u>	-	<u>862,277</u>
Total accumulated depreciation	<u>10,934,911</u>	-	<u>1,312,481</u>	<u>730,128</u>	<u>11,517,264</u>
Capital assets, net	\$ <u>19,859,618</u>	\$ -	\$ <u>802,221</u>	\$ <u>27,838</u>	\$ <u>20,634,001</u>

(9) Deferred Revenue

As described in Notes 2(d) and 6 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, 2010 is attributable to the following receivables:

Ad valorem assessments	\$ 1,659,450
Water service and delinquency charges	324,489
Governmental contracts	<u>3,298,654</u>
	\$ <u>5,282,593</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(10) Long-Term Liabilities

Capital Leases

The District has acquired certain heavy equipment under capital lease agreements, all of which have been paid in full as of June 30, 2010.

The following is a summary of changes in capital lease obligations for the year ended June 30, 2010:

	Balance June 30, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2010</u>
Portions due within one year	\$ <u>4,476</u>	\$ <u>-</u>	\$ <u>4,476</u>	\$ <u>-</u>

Accrued Compensated Absences

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2010:

	Balance June 30, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2010</u>
Compensated absences payable				
Payable within one year	\$ 396,484	\$ 1,118,546	\$ 1,119,461	\$ 395,569
Payable after one year	<u>374,779</u>	<u>15,840</u>	<u>-</u>	<u>390,619</u>
	\$ <u>771,263</u>	\$ <u>1,134,386</u>	\$ <u>1,119,461</u>	\$ <u>786,188</u>

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

(11) Retirement Plan

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 benefits, 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(11) Retirement Plan (continued)

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 fiscal years ending June 30, 2010, 2009, and 2008 were \$1,339,716, \$1,293,851, and \$1,227,458, respectively, which equal the amount of the required contributions for each fiscal year.

(12) Other Postemployment Benefits

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, 2010, 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, 2010 and 2009, respectively, there were twenty four and twenty two retirees receiving benefits.

Funding Policy

Costs of the plan are financed on a pay-as-you-go basis. For the year ended June 30, 2010, the District contributed \$124,278 under the plan.

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, 2010 and changes in the obligation.

Annual required contribution	\$ 581,813
Interest on net obligation	39,281
Contributions made from general fund	(124,278)
Increase in obligation	496,816
Obligation, beginning of year	<u>872,932</u>
Obligation, end of year	\$ <u>1,369,748</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(12) Other Postemployment Benefits (continued)

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010 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, 2010 is \$7,103,713. UAAL is 91% 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.

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 most recent actuarial valuation July 1, 2008, 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, 2010 is 27 years.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(13) Contingencies

Silvery Minnow

The District was 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 environmental groups. 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 ruled that the 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 was appealed to the 10th Circuit Court of Appeals. In April, 2010, the Circuit Court dismissed the appeal, and directed the District Court to vacate its judgment and to dismiss the environmental groups' complaint. Currently, all parties to these proceedings are abiding by a 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.

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 contended that a contract signed in 1951 by the District and the Bureau of Reclamation whereby the Bureau agreed to significantly rehabilitate District facilities and provide ongoing maintenance, gave title to the U.S. government. The reimbursable 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 the District's quiet title suit was time barred under the Federal Quiet Title Act and that ownership of certain specific significant District structures and land tracts resided with the U.S. government and that title could be reconveyed 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 was appealed to the 10th Circuit Court of Appeals.

In March, 2010, the Circuit Court ruled that the District Court erred in granting summary judgment to the U.S. government and should have simply dismissed the District's quiet title suit due to statute of limitation requirements. The Circuit Court further stated that their ruling did not settle the title dispute between the District and the U.S. government and that the dispute remains to be settled by possible future judicial resolution. The District continues to assert its ownership of all District facilities. Absent U.S. Congressional action, further title dispute resolution is dependent on future U.S. government legal proceedings, if any. The District financial statement presentation reflects title resting with the District.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(14) 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, 2010 is as follows:

	<u>General Fund</u>
Excess of revenues over expenditures on a non-GAAP budgetary basis	\$ 1,896,415
Prior year encumbrances	(1,233,535)
Current year encumbrances	<u>864,466</u>
Excess of revenues over expenditures on a GAAP basis	\$ <u>1,527,346</u>

(15) Commitments

Bosque Revitalization @ Route 66

In July, 2008 the District entered into a project cooperation agreement with the U.S. Department of the Army (government) under which the government agreed to perform certain work related to the environmental revitalization of the Bosque consisting of improving and restoring the ecosystem and constructing recreational features. The District was required to contribute 25% of the ecosystem restoration cost and 50% of the recreation cost. The estimated total ecosystem restoration cost 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 to be met by in-kind contributions, primarily the value of District land, as well as work performed by the District during the construction period, and \$302,000 cash contribution which was remitted during the year ended June 30, 2009. The construction was completed in April 2010, although the project will remain open for four years for purposes of monitoring by the government. As of June 30, 2010, the District estimates it has performed work valued at approximately \$134,000 on the project. The District has been party to discussions with the government concerning the validity for the usage of District land as cost share given issues concerning title as noted in Note 13. The District believes the remainder of its required cost share will be met by a credit to be determined by the government for the value of its land.

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 of \$864,466 at June 30, 2010 are included in assigned fund balances in the accompanying balance sheet.

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, 2010

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)
07/01/09	\$ -0-	\$ 6,481,060	\$ 6,481,060	0%	\$ 7,103,713	91%
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, 2010

	<u>Special Revenue Fund</u>		<u>Total</u>	
	<u>Water Bank</u>	<u>Endowment Fund Savings</u>		
<u>Bank of America</u>				
Balance per books	\$ <u>348,290</u>	\$ <u>511,291</u>	\$ <u>859,581</u>	
Balance per bank	\$ <u>348,131</u>	\$ <u>511,291</u>	\$ 859,422	
Less: FDIC coverage			<u>250,000</u>	
Total uninsured public funds			<u>609,422</u>	
50% collateral requirement			304,711	
Pledged securities			<u>639,886</u>	
Over (under)			\$ <u>335,175</u>	
Collateralized by FNMA and FMAC issues as follows:				
<u>Cusip #</u>	<u>Face Value</u>	<u>Interest Rate</u>	<u>Due</u>	<u>Collateral Value</u>
31283H5J0	\$ 39,750	5.50%	12/01/2034	\$ 43,137
31371KWE7	37,031	5.00%	12/01/2017	40,003
31400EQ52	12,490	5.00%	04/01/2018	13,492
31403DGZ6	80,366	5.50%	05/01/2036	86,938
31410FZ73	24,393	6.00%	03/01/2037	26,710
31410FZ99	375,143	6.00%	03/01/2037	410,778
Seventeen similar securities				<u>18,828</u>
Collateral held by Bank of New York Mellon, NY, NY.				\$ <u>639,886</u>

(continued)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
JUNE 30, 2010

<u>Wells Fargo Bank NM, NA</u>	<u>General</u>	
	<u>Fund</u>	
Balance per books	\$ <u>26,800</u>	
Balance per bank	\$ <u>409,638</u>	\$ 409,638
Less: FDIC coverage		<u>250,000</u>
Total uninsured public funds		<u>159,638</u>
50% collateral requirement		79,819
Pledged securities		<u>781,567</u>
Over (under)		\$ <u>701,748</u>

Collateralized by FNMA issues as follows:

<u>Cusip #</u>	<u>Face</u> <u>Value</u>	<u>Interest</u> <u>Rate</u>	<u>Due</u>	<u>Collateral</u> <u>Value</u>
31371MU96	\$ 64,366	6.00%	7/1/2036	\$ 70,052
31416BL63	661,259	5.50%	2/1/2038	<u>711,515</u>

Collateral held by Wells Fargo Bank Northwest, NA, Salt Lake City, Utah \$ 781,567

Wells Fargo Bank NM, NA, Repurchase Agreement

Balance per agreement	\$ 1,506,731
102% collateral requirement	1,536,865
Pledged securities	<u>1,536,865</u>
Over (under)	\$ <u>-</u>

Collateralized as follows:

FNCL 00919535, CUSIP #31412ASY1, Face value \$1,408,071, 6%, Due 06/01/2037 \$ 1,536,865

Collateral held by Wells Fargo Bank Northwest, NA, Salt Lake City, Utah

Reconciliation to financial statements:

Bank of America	\$ 859,581
Wells Fargo Bank, NM	1,533,531
Cash on hand	<u>1,000</u>
	\$ <u>2,394,112</u>

(concluded)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

<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		\$ 406,534
Fish and Wildlife Coordination Act	15.517		<u>28,277</u>
Total U.S.Department of Interior			434,811
U.S. Department of Agriculture			
Collaborative Forest Restoration	10.679		76,011
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>365,958</u>
Total Expenditures of Federal Awards			\$ <u>876,780</u>

Notes to Schedule of Federal Awards

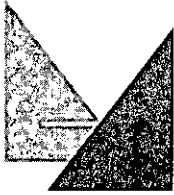
The above schedule of expenditures of federal awards includes the federal grant activity of the Middle Rio Grande Conservancy District. The information in this schedule is presented on the modified accrual basis of accounting.

Water 2025

The Middle Rio Grande Conservancy District has accounted for and reported \$3,632,925 of cumulative cost share through June 30, 2010, of which \$605,756 occurred in the year ended June 30, 2010.

Section 593 Program

The Middle Rio Grande Conservancy District has accounted for and reported \$1,615,793 of cumulative cost share through June 30, 2010, of which \$121,986 occurred in the year ended June 30, 2010.



MACKIE, REID &
COMPANY, PA

Certified Public Accountants

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 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 6-1, 8-1, 10-1, 10-3, and 10-4 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, 4-1,9-1, and 10-2.

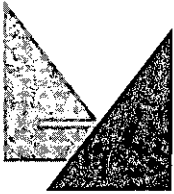
The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 22, 2010



MACKIE, REID &
COMPANY, PA

Certified Public Accountants

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 OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-4 to be a material weakness.

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

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 22, 2010

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

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>
15.507	Water 2025	U.S. Department of Interior
12.unknown	Water Resources Development Act of 1999 Section 593 program	U.S. Department of Defense

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

Auditee qualified as low-risk auditee? yes no

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

Prior Year Findings Reported Not Repeated

9-2 Travel and Per Diem

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

9-1 Procurement/Payroll/Disbursements

Current Year Findings

10-1 Inventory

10-2 Grant Agreement Match Documentation

10-3 Grant Reporting

Note: Finding 10-4 on pages 55-56 for federal award findings and questioned costs is also considered to be a current year finding.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

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, 2010, this fund has \$7,120,291. 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, 2010 the endowment fund and general fund investment interest rates in the Pool was .18%. The average interest rate earned for fiscal year 2010 approximated .21%.

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, 2010

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 investment policy should coincide with the purpose of the endowment fund.

The District should also ensure that the investment policy adequately address general operating reserves. These investment principles may differ 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 motion be so adopted and this comment will be removed in future audits.

Response

Market uncertainty dictates caution when dealing with tax payer dollars and preservation of public funds principal as well as short-term liquidity is of utmost importance. During October 2010, the District's Board invited the Vice President of Wells Fargo Securities, who specializes in public fund investments, to give a presentation outlining strategies that would improve rate of return, minimize principal risk, and sustain short-term liquidity. The strategy presented was a 5 year laddering of District funds in treasury bills, notes and bonds which would have a rolling maturation at 6 month intervals. Additionally, the Board has instructed the District treasurer to invite a representative of the New Mexico State Investment Council for their perspective. Resolution is on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

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 some 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.

The Human Resource Department requested and received fiscal year 2011 funding for an updated salary survey, including compensation strategies to address instances where employee tenure causes compensation outside of personnel policy practices.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Prior Year Findings Modified and Repeated

4-1/Personnel Policy (continued)

Response (continued)

Request for proposals (RFPs) were issued in mid October 2010 and sealed RFPs were received late October 2010. Best and final offers were requested for mid November. District recommendation for Board approval will be in early December 2010. Resolution is on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

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>
2010	\$ 544,048	\$ 189,000	\$ 355,048	\$ 167,577
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

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 collect 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, 2010, the District removed from its books delinquent water service charge assessments in the amount of \$27,854.

The District still has not created and 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, 2010

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 Department 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. Resolution will require legal, administrative and governing board assistance and is on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

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 have 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, 2010, the District failed to reverse the October, 2009 payroll accrual in the amount of \$322,916. As a result, personnel costs were overstated for the month of November, 2009 and year to date personnel costs were overstated for the remainder of the year.

Effect

Expenditures were overstated by an amount which represented 4% of budgeted personnel costs and the overstatement was not detected.

Cause

The District's procedures for closing the accounting records on a monthly basis and the resulting preparation of monthly financial statements, including the budget to actual comparison allowed the existence of this accounting error to go undetected.

Recommendation

The District procedures in preparation of monthly financial statements, including the budget to actual comparison provided to the Board should include sufficient review as well as reconciliation of significant balance sheet accounts to detect errors in a timely manner. General ledger entries such as accruals and reversal of accruals could be set up as recurring or automated entries. A monthly check list for addressing balance sheet accounts should be used.

In addition to the monthly report comparing actual financial results to the budget, 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 will develop, as recommended, a simplified assets (resources) and liability (obligations) report which will be presented to the governing board in addition to a budgetary comparison report. Sufficient review and reconciliation of significant balance sheet accounts will be performed in a timely manner. Accruals and reversal of accruals will be set up as recurring automated entries.

The finding is considered to be resolved.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Prior Year Findings Modified and Repeated

9-1/Procurement/Payroll/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, payroll and disbursements.

Conditions

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

- Four disbursements for tires or repair parts, totaling \$1,142 were not posted to the District's repair and maintenance records for the applicable equipment and two disbursements for oil changes were posted to the incorrect unit in the District's repair and maintenance records.
- Although the minutes of the June 14, 2010 Board meeting indicated the listing of disbursements presented to the Board were ratified, the listing itself was not signed by the Chair or the Treasurer.
- One requisition for \$403 did not have evidence of approval by the Treasurer.
- During our payroll audit procedures we identified four pay periods whereby the department manager failed to document their approval of the department employee pay period time records.

Effect

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

Cause

Numerous District employees participate in the expenditure processes, and all employees may not be aware of all of the District's internal control policies, procedures, and practices related to procurement payroll and disbursement.

Recommendation

The District should continue to emphasize and train applicable District employees on procedures and practices relative to established procurement, payroll 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Prior Year Findings Modified and Repeated

9-1/Procurement/Payroll/Disbursements (continued)

Response

Upon discovery of the four repair orders and two vehicle oil change discrepancies, the accounting department met with the Division office manger to review and reinforce proper internal control procedures. Also, the District anticipates implementation of a new Vehicle and Fleet management module to its accounting software package late 3rd or early 4th quarter of this fiscal year that will dramatically improve monitoring procedures. Resolution is ongoing.

The payroll clerk has been instructed to notify the District treasurer when a department manager fails to document approval of employee pay period time records. In addition, the treasurer will periodically and unannounced audit the payroll time sheets for proper authorization to ensure compliance. This finding is considered resolved.

The District will continue to emphasize and train its employees on procedures and practices relative to established procurement, payroll and disbursement policies. Resolution is on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Current Year Findings

10-1/Inventory Valuation

Criteria

Inventories of supplies and materials are significant assets of the District. As of June 30, 2010, inventories were valued at \$973,235. The District is constantly purchasing items which are added to inventory and consuming inventory items in field operations.

Policies and procedures related to inventory should include the proper pricing of inventory for financial reporting purposes. Pricing practices impact period expenditure amounts for applicable field expenditure categories.

Condition

We selected a judgmental sample of inventory items in order to verify the average cost of the items in the final extended physical inventory. When discrepancies were noted, the sample was expanded, and 82 items were ultimately tested. Discrepancies between the unit cost at which the inventory was valued at June 30, 2010, and the correct unit cost were found in 68 of the items. The total discrepancy resulted in an adjustment which increased the financial statement inventory value by approximately \$32,000.

Effect

Errors in proper pricing of inventory make it difficult for management to properly determine inventory losses and may also result in overstating or understating the inventory items consumed in field operations.

Cause

The District's computer software which was in use for the majority of the year ended June 30, 2010 did not properly account for transfers of items from inventory, resulting in errors in the calculation of average cost. Monthly accounting procedures did not identify.

Recommendation

We recommend the District reemphasize the importance of monitoring inventory quantities and dollars.

Response

The District's legacy accounting system, implemented in 1987, allowed instances of negative inventory quantities on hand. The new accounting system does not allow for negative inventory quantities and consequently calculates the correct average cost of inventory items on hand, eliminating the need for manual calculations. As recommended, the accounting department will continue to monitor inventory quantities and associated costs as part of its closing process.

This finding is considered resolved.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Current Year Findings

10-2/Grant Agreement Match Documentation

Condition

Various grant agreements to which the District is a party may have match requirements whereby the District must account for its expenditures in order to document meeting applicable match requirements. During the year ended June 30, 2010, the final financial status reports were filed for two grants. One of the grants had a match requirement which was not reported. The match requirement was reported on the other grant, but included expenditures which should have been reported in earlier periods.

Criteria

Non adherence to grant match requirements could place the District in violation of the respective grant agreement, subjecting the District to being required to repay grant funds received.

Effect

The District may not be in compliance with grant agreements.

Cause

Emphasis has not been placed on monitoring grant requirements and documenting and reporting required match on a timely basis.

Recommendation

We recommend the District complete match documentation on a timely basis and in accordance with grant terms and assign one individual the overall responsibility for compliance.

Response

The accounting department will assist and support program managers by providing general ledger expense data, reconciliation and accounting information as needed. On a quarterly basis, the accounting department will monitor for the timely grant reimbursement and match form submissions. Resolution is on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Current Year Findings

10-3/Grant Reporting

Criteria

Terms of the grant award from the U.S Department of Agriculture under the terms of the Community Forest Restoration Act of 2000 provide for certain reporting by the District. Semiannual program performance reports are required to be submitted.

Condition

The District has not submitted the program performance reports described above.

Effect

The District has not complied fully with the reporting requirements applicable to the grant award from the U.S. Department of Agriculture.

Cause

The District does not maintain a summary of provisions for each grant awarded, including due dates of required reports. The performance reports for the Community Forest Restoration Act grant were not filed.

Recommendation

Although responsibilities for grants are assigned to various individuals, we recommend one person be designated to coordinate tracking of all requirements related to grant compliance and reporting. This individual, with the assistance of grant managers, should compile a checklist, including required reports and due dates for each grant or federal contract the District is awarded. This individual should ensure required reports are filed, and grant terms are complied with.

Response

Grant managers will be held accountable for the management and reporting requirements of their individual grant programs. The grant manager will compile a checklist, including required reports and due dates and ensure that requirements are consistently met and reported in a timely fashion. The grant manager will provide the accounting department a copy of the checklist and on a quarterly basis, the accounting department and grant manager will ensure grant compliance. Resolution is on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Prior Year Findings

None

Current Year Findings

10-4 Water 2025 In-kind Match

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Current Year Findings

CFDA Title/Number: Water 2025 CFDA #15.507
Federal Award Number/Year: 04FC402237 9/15/04-12/31/09
Federal Agency: Department of the Interior

10-4/Water 2025 In-kind Match (continued)

Effect

The internal controls over the financial reporting of the work order system are not properly designed or operating in a manner that provides 100% accuracy.

Cause

The unit costs used for labor, equipment rates and inventory costs in the work order system have not been reviewed or updated in a timely or consistent manner. There are no internal policies or practices which review or correlate reported data from the work order system with the District general ledger data.

Recommendation

If the District intends to use the work order system data as a basis for charging costs to federal grants or contracts, we recommend the District improve the internal control processes and procedures related to the work order system. Controls should include review and retention of work orders and maintaining actual labor, equipment and inventory rates.

Response

The District will improve the internal control processes and procedures related to the work order system. Division managers and field clerks will be responsible for the correct input of GEO codes, labor hours worked, equipment used, hours of equipment usage, and materials used. The accounting department will insure that labor rates, equipment rates and inventory items are updated in a timely manner and properly recorded in the work order system at actual cost. Division managers and field clerks, working with the Records department, will be responsible for the retention of all work orders. On a monthly basis, the accounting department will randomly sample and review Division work orders for appropriate correlation the general ledger.

Resolution is on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
EXIT CONFERENCE
JUNE 30, 2010

An exit conference was held on November 22, 2010. Attending were:

Middle Rio Grande Conservancy District

Janet Jarratt, Chairman
Chris Sichler, Board Member
Subhas Shah, Chief Executive Officer
Jeanette Bustamante, Administrative Officer
Steven Houser, Secretary/Treasurer
Melin Villegas-Vargas, Accountant

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.