

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2012

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
OFFICIAL ROSTER
JUNE 30, 2012

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

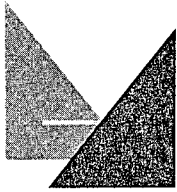
Honorable William Parnall	Division No. 1
Honorable Stan Whitaker	Division No. 2
Honorable M. Monica Zamora	Division No. 3
Honorable Beatrice Brickhouse	Division No. 4
Honorable Ted Baca	Division No. 5
Honorable Brett Loveless	Division No. 6
Honorable John J. Romero, Jr.	Division No. 7
Honorable Ross 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 Samuel L. Winder	Division No. 19
Honorable Jacqueline D. Flores	Division No. 20
Honorable Alisa Hadfield	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>
Derrick J. Lente, Chair	7	Sandoval
Cecil Eugene Abeita, Vice-Chair	1	At-large
John Kelly	2	Bernalillo
Karen Dunning	3	Bernalillo
Adrian Oglesby	4	Bernalillo
Johnny Paiz	5	Valencia
Chris Sichler	6	Socorro

OFFICERS

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



MACKIE, REID &
COMPANY, PA

Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

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, 2012, 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, 2012, and the respective changes in financial position 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 13, 2012, 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 10 and the schedule of funding progress for the retiree health and dental insurance plan on page 34 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 schedule of cash accounts and pledged collateral 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 13, 2012

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

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, 2012. This annual report consists of government-wide and fund financial statements. Government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements provide information about the District as a whole and present a longer term view of the District's finances. Fund financial statements include the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. These statements 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 Total Net Assets decreased from \$46,877,550 to \$45,087,821 or 3.8% for the year ended June 30, 2012 when compared to June 30, 2011.
- Fiscal year 2012 Total Assets decreased from \$51,829,110 to \$49,610,364 or 4.3% due in part to a decrease of \$539,648 in Cash on hand and deposited with local banks (see Schedule of Cash Accounts and Pledged Collateral on page 36) and a decrease of \$665,273 in Cash deposited with the Local Government Investment Pool (see Footnote 6 – Investments on page 24). In addition the District wrote down \$473,597 of a Long-term Contract Receivable after the US Army Corp of Engineers notified the District it would not reimburse its share of a cost overrun relating to a joint agreement between the District, Bernalillo County and the Albuquerque Metropolitan Arroyo Flood Control Association (AMAFCA) for strengthening and rebuilding of the Albuquerque West Levee (see Footnote 7 Contracts Receivable on page 26). This write down was offset by a decrease in Long term Payables to Local Governments, specifically Bernalillo County and AMAFCA of \$146,530. Current Governmental Contracts Receivable at the Federal and Local level decreased by \$281,968 when compared to June 30, 2011. Capital assets including depreciable building, property and equipment and infrastructure increased by \$1,298,747. Additions to capital assets included \$302,807 to vehicles, \$658,406 to heavy equipment and \$239,701 to infrastructure. Current year depreciation was \$1,466,966, an increase of 48,226 when compared to June 30, 2011. Book value of capital assets at June 30, 2012 was \$19,856,483. (see Footnote 8 Capital Assets on page 27).
- Fiscal year 2012 Total Liabilities decreased from \$4,951,560 to \$4,522,543 or 8.7% with decreases in Voucher Payables of \$549,803 and Accrued Payroll and Related Benefits Payable of \$290,630. Accrued Compensated Absences Payable within One Year increased \$164,155 (see Footnote 10 Accrued Compensated Absences on page 28). Obligation for Postemployment Benefits Payable after One Year increased by \$401,371 (see Footnote 12 Other Postemployment Benefits - Annual Expense and Net Obligation on page 29) when compared to June 30, 2011.
- Program Expenditures totaled \$18,066,526 for the year ended June 30, 2012, an increase of \$1,223,535 or 7.3% when compared to June 30, 2011.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL HIGHLIGHTS (continued)

- Personnel services (payroll) increased by \$354,241 or 4.9% due mostly to cost of living and merit increases, as well as an increase in accrued compensated absences expense (see Footnote 2 (g) Compensated Absences on page 21 and Footnote 10 Accrued Compensated Absences on page 28) for the year ending June 30, 2012. Employee benefits increased by \$129,038 or 3.5% due to increased retirement contributions as a result of increased payroll expenses, increased employee healthcare costs and an increase in obligation for post-employment benefits (see Footnote 12 Other Postemployment Benefits on pages 29 and 30).
- Contractual Operating and Maintenance Services increased by \$702,824 when compared to June 30, 2011. Of note was the District's cost share to maintain the Bureau of Reclamation's (BOR) El Vado facility. The 2012 cost share increased by \$522,169 due a significant BOR overestimation of cost in fiscal year 2011 and the subsequent cancellation of the District's 3rd and 4th quarter 2011 payments.
- Field expenses increased a modest \$43,142 or 2% to \$2,167,073 at June 30, 2012 when compared to June 30, 2011.
- General and Administrative expenses decreased from \$2,195,103 at June 30, 2011 to \$2,117,513 at June 30, 2012 or 3.5%.
- Depreciation Expense increased by \$48,226 and Internalized Capital Costs including labor, equipment and materials for the installation of infrastructure gates decreased by \$23,654 when compared to June 30, 2011.
- Program Revenues totaled \$ 2,906,699 for the year ended June 30, 2012, a decrease of \$353,670 or 10.9% when compared to June 30, 2011.
 - Water Service Assessments revenue was \$1,579,738 and remained relatively unchanged when compared to June 30, 2011.
 - Contract Revenue from Federal Governmental Entities decreased by \$315,693 when compared to June 30, 2011, due largely to the net write down of the US Army Corp of Engineers receivable (see above and Footnote 7 Contracts Receivable on page 26). Contract Revenue from Local Governmental Entities increased \$16,276 when compared to June 30, 2011.
- General Revenues totaled \$13,370,098 for the year ended June 30, 2012, an increase of \$748,283 or 5.9% when compared to June 30, 2011.
 - Ad valorem Assessment revenue increased by \$729,656 largely due to an increase in collection of \$507,652 from Bernalillo county and \$215,333 from Valencia county.
 - Delinquency charges remained relatively unchanged.
 - Gain on Land sales and Water Bank Leases increased by \$17,161 when compared to June 30, 2011.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of Management Discussion and Analysis and the basic financial statements which include Required 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.
- Required Supplemental Information - A Budgetary Comparison statement comparing actual results with budgeted or anticipated results.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The analysis of the District as a whole begins on page 5. The Statement of Net Assets and Statement of Activities report information about the District as a whole. These statements include all assets and liabilities using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net assets and changes in net assets. You can think of the District's net assets - the difference between assets and liabilities, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's ad valorem tax base and the condition of the District's facilities, to assess the overall health of the District.

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

FUND FINANCIAL STATEMENTS

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

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

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

FINANCIAL ANALYSIS

Statement of Net Assets:

- Total Assets at June 30, 2012 when compared to 2011 were \$49,610,364 and \$51,829,110 respectively. The District held land and capital assets of \$20,313,639 and \$20,475,520 net of accumulated depreciation of \$14,277,703 in 2012 and \$12,817,075 in 2011. (Additions to capital assets are further explained in Notes to the Financial Statements, Footnote Number 8 – Capital Assets, page 27.) The total remaining assets decreased to \$29,296,725 as of June 30, 2012 or 7% when compared to \$31,353,590 as of June 30, 2011.
- Total liabilities as of June 30, 2012 and 2011 were \$4,522,543 and \$4,951,560; with current liabilities of \$1,050,065 compared to fiscal year 2011 of \$1,717,603. The decrease was primarily caused by a decrease in vouchers payable of \$549,803 and a decrease in accrued payroll and related benefits payable of \$290,630 when compared to June 30, 2012. Long-term liabilities increased with balances as of June 30, 2012 and 2011 of \$3,472,478 and \$3,233,957 respectively. The increase was caused by an increase in Obligation for Postemployment Benefits Payable of \$401,371 and a decrease in Payables to Local Government due after One Year of \$146,530 (see Footnote 7 - Contracts Receivable on page 26).
- As of June 30, 2012 Total Net Assets were \$45,087,821 and included \$20,313,639 Invested in Capital Assets (see Footnote 8 - Capital Assets, page 27) and Unrestricted Net Assets of \$24,774,182. As of June 30, 2011, Total Net Assets were \$46,877,550 and included \$20,475,520 Invested in Capital Assets and Unrestricted Net Assets of \$26,402,030. As a result, June 30, 2012 Total Net Assets decreased by \$1,789,729 or 3.8% when compared to June 30, 2011.

Statement of Activities:

Total Revenues, consisting of Program and General Revenue, for the years ended June 30, 2012 and June 30, 2011 were \$16,276,797 and \$15,882,184, an increase of 2.5%.

- Program Revenues decreased by \$353,670 or 10.8% with 2012 program revenues totaling \$2,906,698 compared to \$3,260,369 in 2011. This decrease was due to a \$299,417 decrease in Contract Revenue from Governmental Entities; primarily caused by the \$327,067 net write down of the US Army Corp Engineers Albuquerque West Levee project. Operating Grant Revenue decreased \$62,947 when compared to June 30, 2011 due to the closing of the Collaborative Fire Rehabilitation Project. Water service assessment revenue increased a very modest \$7,033 in 2012, up from \$1,572,705 in 2011 to \$1,579,738 as of June 30, 2012.
- General Revenue increased \$748,283 from \$12,621,815 at June 30, 2011 to \$13,370,098 or 5.9%. The increase is attributed primarily to additional ad valorem revenue collections of \$507,652 from Bernalillo county and \$215,533 from Valencia county when compared to June 30, 2011.
- Total Program Expenses increased \$1,223,535 up from \$16,842,991 as of June 30, 2011 to \$18,066,526 or 7.3%. Personnel Services (payroll) and Employee Benefits increased by \$354,241 and \$129,038 respectively; Contractual Operating and Maintenance Services increased by \$702,824; total Field Expenses increased by \$43,142; Depreciation Expense increased by \$48,226; and, Internal Cost Capitalized decreased by \$23,654. General and Administrative expenses decreased by \$77,590 when compared to June 30, 2011. (See Financial Highlight above.)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Balance Sheet-Governmental Funds:

- Total assets decreased \$2,056,067 or 6.6% with June 30, 2012 total assets of \$29,317,944 and June 30, 2011 total assets of \$31,374,011. Cash and cash equivalents decreased from \$3,029,802 to \$2,490,154 or 17.8%. Investments in Local Government Pool decreased from \$20,836,472 to \$20,171,199 or 3.2%. Governmental Receivables from federal and local entities decreased from \$933,485 to \$651,517; Operating Grants decreased from \$105,619 to \$8,758 due to the completion the Collaborative Fire Rehabilitation Project. Long-term Contracts Receivable - US Army Corp of Engineers were written down by \$473,597 when compared to June 30, 2011(see Financial Highlights above).
- Total liabilities decreased by \$1,816,715 or 24.9% due to a decrease in Vouchers Payable of \$549,803 when compared to June 30, 2011; Accrued Payroll and Related Benefits decreased by \$290,630; and Payables to Local Governments due after One Year decrease by \$146,530 as the result of the write down of the long-term receivable due from the US Army Corp of Engineers. Deferred Revenue decreased \$839,290 (of note was a decrease of \$354,533 from BIA Pueblos, a decrease of \$208,191 from the Alameda Drain and a net decrease of \$327,067 from the Albuquerque West Levee project) when compared to June 30, 2011.
- The net effect of the changes in Total Assets and Total Liabilities resulted in a net decrease in Total Fund Balances of \$239,352 or.99%with Total Fund Balances of \$23,850,017 at June 30, 2012 and \$24,089,369 at June 30, 2011.

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

- Total revenues increased by \$943,008 or 5.8% with total revenues of \$17,118,702 at June 30, 2012 and \$16,175,694 at June 30, 2011. The increase is attributable to the an increase in ad valorem revenue of \$654,506 and an increase of \$332,909 in Contract Revenue from Governmental Entities, specifically at the federal level an increase of \$189,531 from BIA Pueblos, and at the local level, an increase of \$218,132 from the Alameda Drain when compared to June 30, 2011.
- Total expenditures increased by \$1,179,114 or 7.3 % with total expenditures of \$17,358,054 at June 30, 2012 and \$16,178,940 at June 30, 2011. The increase is attributable to a \$1,112,731 increase in Current Operations, including \$300,346 in Personnel, \$144,008 in Benefits, \$702,825 in Contractual Services and \$522,411 in General Administration expenses when compared to June 30, 2011. Field expenses decreased \$556,859 when compared to June 30, 2011. Capital Outlay expenditures increased by \$66,383 when compared to June 30, 2011.
- Fund balances decreased by \$239,352 or .99% with 2012 fund balances of \$23,850,017 compared to the 2011 fund balances of \$24,089,369.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

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, 2012 and 2011, the District budgeted expenditures to exceed revenues \$3,249,419 and \$2,560,334 respectively. Reserves of cash invested in the Local Government Investment Pool were used to balance the budget and complete the budget process.

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

For the year ended June 30, 2012, actual revenues were \$16,960,480 or \$1,479,421 more than the budgeted revenue of \$15,481,059. Favorable variances included Ad valorem Assessment Revenue of \$1,001,352, Delinquency Charges of \$83,360, Investment Income of \$1,147, Contract Revenue from Governmental Entities \$403,068, and Operating and Capital Grants of \$52,191. Unfavorable variances included Water Service Assessment revenue of \$9,811 and Other Revenue of \$51,886, (caused in part by the District's decision not to auction off worn-out and obsolete assets as was done in 2011).

For the year ended June 30, 2012, actual expenditures were \$17,077,594 or \$1,652,884 less than the total expenditure budget of \$18,730,478. Favorable variances included Personnel Services of \$807,579, Employee Benefits of \$347,284, Field Expenses of \$198,107, General and Administration Expenses of \$214,161 and Capital Outlay Expenditures of \$85,728. There were no unfavorable variances.

Budgeted cash reserved of \$117,114 were required to offset the difference in actual revenues and actual expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2012 and 2011, the District owned \$34,591,342 and \$33,292,595 respectively, of land and capital assets. This included \$16,101,966 in 2012 and \$15,105,012 in 2011 invested in equipment and vehicles; \$3,562,058 in 2012 and \$3,554,779 in 2011 invested in land and buildings; \$988,916 in 2012 and \$982,563 in 2011 invested in office furniture and related equipment. 2012 investment in Computer Software totaled \$251,361 as compared to \$202,901 in 2011. Construction in Progress remained unchanged when compared to 2011 and includes only the Bernardo Siphon project at \$202,785. Infrastructure assets totaled \$13,484,256 compared to \$13,244,555 at June 30, 2011. Land remained relatively unchanged from \$457,156 as of June 30, 2012 compared to \$457,162 as of June 30, 2011. Major capital additions for the current fiscal year included \$48,460 for a district-wide upgrade of the employee time keeping system; \$302,807 replacement and purchase of new district-wide vehicles; \$658,406 for the replacement and purchase on new district-wide heavy field equipment; and, \$239,701 in Infrastructure upgrades and improvements. Deletions as of June 30, 2012 were \$8,953. Ending accumulated depreciation as of June 30, 2012 and 2011 was \$14,277,703 and \$12,817,075, respectively. Net book value of land and capital assets was \$20,313,639 as of June 30, 2012 and \$20,475,520 as of June 30, 2011.

There were no capital leases for the year ended June 30, 2012 or 2011.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

DISTRICT HIGHLIGHTS

Bosque Revitalization – Phase II

The U. S. Army Corps of Engineers broke ground on Phase II of the Bosque Revitalization project in the mid valley. The Middle Rio Grande Conservancy District is the sponsoring agency for the more than 900 acre project encompassing non-native plant species removal, fuel reductions and creation of addition recreational facilities including, picnic areas and boat launches. Former U. S. Senator Pete Domenici, who spearheaded funding for the project in Washington D.C. during his tenure, was on hand to open the project. The project involves a 26-mile stretch from Alameda Bridge on the north to the Interstate 25 overpass near Isleta Pueblo and will take 3-years to complete at a cost of \$13 million dollars.

Bosque Closure – July 2012

For the second year in a row and for the second time since its inception, the Middle Rio Grande Conservancy District had to close the Bosque to ensure the safety of visitors and the Bosque itself, due to drought conditions and extreme fire danger in Sandoval, Bernalillo, Valencia and Socorro Counties. A full closure was ordered by Chief Engineer, Subhas Shah on June 29 restricting usage. That order was amended to a partial-closure of the Bosque following the 4th of July for Bernalillo County only. The order was lifted fully in all counties on July 18 following several rain storms that decreased the fire danger. Two fires were recorded in the closure period; the Riverside fire in southern Bernalillo County and the Romero fire in Corrales and on the Sandia Pueblo. Previous fuel reductions in the Riverside fire area were credited with keeping this fire less than 50 acres. Meantime, the Romero fire consumed more than 350 acres of Bosque area.

Water Outlook – March 2012

A reduced run-off in northern New Mexico and southern Colorado is being cited as a major contributor to a stressed irrigation season. The District was forced to start releasing supplemental water from El Vado Reservoir in mid-June. That's about 30 to 60 days earlier than normal. By mid-August the District had depleted its supplemental supply of more than 100-thousand acre feet of water. The District began the 2012 irrigation season imploring irrigators to use water wisely, conserve, share and not waste any water. In turn, the district monitored water releases from the northern reservoirs, very closely. The District finished the season with no water in storage but will begin the 2013 irrigation season with about 21,000 acre feet of water in storage due to the normal allotment given to participants in the San Juan/Chama river project.

District Joins New Mexico Lawsuit

The future of water for the Middle Rio Grande valley is at the heart of a lawsuit involving the State of New Mexico and farmers in southern New Mexico and west Texas. The MRGCD Board of Directors joined the suite in an effort to protect mid-valley farmers and ensure what is rightfully theirs. The lawsuit stems from the U.S. Bureau of Reclamation's release of water from Elephant Butte Reservoir to cover what El Paso Irrigation District #1 called a water emergency. The State of New Mexico countered that the water belongs to New Mexico irrigators and the release of water violates the Rio Grande Compact. The lawsuit has yet to be resolved.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

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, NM87103
(505) 247-0234

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,490,154
Investment in Local Government Investment Pool	20,171,199
Current receivables, net:	
Ad valorem assessments, net of allowance of \$136,600	1,914,315
Water service and delinquency charges, net of allowance of \$247,000	284,976
Governmental Contracts-	
Federal	355,000
Local	296,517
Operating grants	8,758
Other	5,751
Prepaid expenses	1,174
Material and supply inventories, at cost	1,095,098
Contract receivable from U.S. Department of the Army, due after one year	2,673,783
Capital assets:	
Land	457,156
Depreciable property, equipment, and infrastructure, net of accumulated depreciation	<u>19,856,483</u>
Total assets	<u>49,610,364</u>
Liabilities	
Vouchers payable	240,641
Accrued payroll and related benefits payable	197,592
Other liabilities	41,647
Accrued compensated absences:	
Payable within one year	570,185
Payable after one year	457,778
Payable to local governments, due after one year	827,240
Obligation for postemployment benefits, payable after one year	<u>2,187,460</u>
Total liabilities	<u>4,522,543</u>
Net assets	
Invested in capital assets	20,313,639
Unrestricted	<u>24,774,182</u>
Total net assets	\$ <u>45,087,821</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	<u>Governmental Activities</u>
Program Expenses	
Public Works:	
Personnel services	\$ 7,649,293
Employee benefits	3,781,686
Contractual operating and maintenance services	935,796
Field expenses	2,167,073
General and administrative expenses	2,117,513
Depreciation	1,466,966
Internal costs capitalized	<u>(51,801)</u>
Total program expenses	<u>18,066,526</u>
Program revenues	
Charges for services:	
Water service assessments	1,579,738
Contracts with governmental entities-	
Federal	761,268
Local	320,684
Other revenue	161,264
Operating grants	<u>83,745</u>
Total program revenues	<u>2,906,699</u>
Net program expense	<u>(15,159,827)</u>
General revenues	
Ad valorem assessments	12,969,984
Delinquency charges	188,360
Investment income	57,233
Loss on equipment and property removal	<u>(2,615)</u>
Gain on land sales and water bank leases	<u>157,136</u>
Total general revenues	<u>13,370,098</u>
Decrease in net assets	<u>(1,789,729)</u>
Net assets, beginning of year	<u>46,877,550</u>
Net assets, end of year	<u>\$ 45,087,821</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,332,675	\$ 1,157,479	\$ 2,490,154
Investment in Local Government Investment Pool	13,581,499	6,589,700	20,171,199
Current receivables, net:			
Ad valorem assessments, net of allowance of \$136,600	1,914,315	-	1,914,315
Water service and delinquency charges, net of allowance of \$247,000	284,976	-	284,976
Governmental Contracts-			
Federal	355,000	-	355,000
Local	296,517	-	296,517
Operating grants	8,758	-	8,758
Interfund receivable	-	21,219	21,219
Other	5,751	-	5,751
Prepaid expenses	1,174	-	1,174
Material and supply inventories, at cost	1,095,098	-	1,095,098
Contract receivable from U.S. Department of Army, due after one year	<u>2,673,783</u>	<u>-</u>	<u>2,673,783</u>
Total assets	<u>\$ 21,549,546</u>	<u>\$ 7,768,398</u>	<u>\$ 29,317,944</u>
Liabilities and fund balances			
Liabilities			
Vouchers payable	\$ 240,641	\$ -	\$ 240,641
Accrued payroll and related benefits payable	197,592	-	197,592
Interfund payable	21,219	-	21,219
Other liabilities	41,647	-	41,647
Payable to local governments, due after one year	827,240	-	827,240
Deferred revenue	<u>4,139,588</u>	<u>-</u>	<u>4,139,588</u>
Total liabilities	<u>5,467,927</u>	<u>-</u>	<u>5,467,927</u>
Fund balances			
Nonspendable			
Inventories	1,095,098	-	1,095,098
Prepaid expenses	1,174	-	1,174
Committed			
Assigned	7,112,111	597,451	7,709,562
Unassigned	<u>7,873,236</u>	<u>-</u>	<u>7,873,236</u>
Total fund balances	<u>16,081,619</u>	<u>7,768,398</u>	<u>23,850,017</u>
Total liabilities and fund balances	<u>\$ 21,549,546</u>	<u>\$ 7,768,398</u>	<u>\$ 29,317,944</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, 2012

Total fund balances (Balance sheet)		\$ 23,850,017
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.		20,313,639
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.		4,139,588
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	\$ (1,027,963)	
Obligation for postemployment benefits	(2,187,460)	
Total liabilities		(<u>3,215,423</u>)
Total net assets (Statement of net assets)		\$ <u>45,087,821</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, 2012

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem assessments	\$ 12,967,145	\$ -	\$ 12,967,145
Water service assessments	1,606,739	-	1,606,739
Delinquency charges	188,360	-	188,360
Investment income	56,147	1,086	57,233
Contracts with governmental entities-			
Federal	1,476,964	-	1,476,964
Local	428,875	-	428,875
Operating grants	74,986	-	74,986
Other	161,264	-	161,264
Water bank leases	-	154,700	154,700
Land sales	<u>-</u>	<u>2,436</u>	<u>2,436</u>
Total revenues	<u>16,960,480</u>	<u>158,222</u>	<u>17,118,702</u>
Expenditures			
Public works:			
Current operations	16,102,155	-	16,102,155
Capital outlays	<u>1,255,899</u>	<u>-</u>	<u>1,255,899</u>
Total expenditures	<u>17,358,054</u>	<u>-</u>	<u>17,358,054</u>
Excess(deficit) of revenues over expenditures	(397,574)	158,222	(239,352)
Fund balances, beginning of year	<u>16,479,193</u>	<u>7,610,176</u>	<u>24,089,369</u>
Fund balances, end of year	\$ <u>16,081,619</u>	\$ <u>7,768,398</u>	\$ <u>23,850,017</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, 2012

Decrease in fund balances (Statement of revenues, expenditures and changes in fund balances)	\$ (239,352)
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.	1,307,700
Governmental funds do not report depreciation expense which is recorded in the statement of activities.	(1,466,966)
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.	(2,615)
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.	(839,290)
Governmental funds do not report the net change in compensated absences.	(147,835)
Governmental funds do not report the net change in obligation for otherpostemployment benefits.	(<u>401,371</u>)
Decrease in net assets (Statement of activities)	\$ (<u>1,789,729</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 11,965,793	\$ 11,965,793	\$ 12,967,145	\$ 1,001,352
Water service assessments	1,616,550	1,616,550	1,606,739	(9,811)
Delinquency charges	105,000	105,000	188,360	83,360
Investment income	55,000	55,000	56,147	1,147
Contracts with governmental entities-				
Federal	1,195,000	1,195,000	1,476,964	281,964
Local	307,771	307,771	428,875	121,104
Operating and capital grants	22,795	22,795	74,986	52,191
Other	<u>213,150</u>	<u>213,150</u>	<u>161,264</u>	<u>(51,886)</u>
 Total revenues	 <u>15,481,059</u>	 <u>15,481,059</u>	 <u>16,960,480</u>	 <u>1,479,421</u>
Expenditures				
Current operations				
Personnel services	8,309,037	8,309,037	7,501,458	807,579
Employee benefits	3,727,599	3,727,599	3,380,315	347,284
Contractual operating and maintenance services	935,821	935,821	935,796	25
Field expenses	2,363,973	2,363,973	2,165,866	198,107
General and administration expense	2,292,048	2,292,048	2,077,887	214,161
Capital outlays	<u>1,102,000</u>	<u>1,102,000</u>	<u>1,016,272</u>	<u>85,728</u>
 Total expenditures	 <u>18,730,478</u>	 <u>18,730,478</u>	 <u>17,077,594</u>	 <u>1,652,884</u>
Deficiency of revenues over expenditures	\$ (<u>3,249,419</u>)	\$ (<u>3,249,419</u>)	\$ (<u>117,114</u>)	\$ <u>3,132,305</u>
Prior year fund balance budget basis	\$ <u>15,838,754</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, 2012

(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, 2012), 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 operation and 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, 2012

(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, 2012. 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 resources 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, 2012

(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, 2012

(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, 2012, accrued vested annual leave totaled \$655,372.

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, 2012, accrued vested sick leave totaled \$330,440.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2012, accrued vested compensatory leave totaled \$28,846. Qualified employees are granted one personal holiday per calendar year. At June 30, 2012, accrued vested personal holiday leave totaled \$13,305.

The government-wide financial statements present the cost of accumulated annual leave, sick leave, compensatory time, and personal holiday 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, 2012

(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) 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, 2012, 2011 and 2010, respectively.

(k) Fund Balances

The District reports fund balances in the following categories:

- Nonspendable – amounts that cannot be spent because they are either not 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.

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, 2012, the general fund assigned fund balance includes the amount necessary to balance the budget for the year ended June 30, 2013 (\$4,903,187), and in accordance with state budget guidance an amount equal to 1/12 of budgeted expenditures for the year ended June 30, 2013 (\$1,848,944), and the amount of encumbered funds pertaining to the budget for the year ended June 30, 2012 (\$359,980). The special revenue assigned fund balance includes accumulated amounts from collections on District water bank leases.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(2) Summary of Significant Accounting Policies (continued)

(k) Fund Balances (continued)

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 \$7,170,947 has been reported as a committed fund balance.

(l) 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.

(m) Use of Estimates

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

(3) Stewardship, Compliance, and Accountability

For the year ended June 30, 2012, general fund budgeted expenditures exceeded budgeted revenues by \$3,249,419. 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(4) Cash and Cash Equivalents (continued)

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, 2012, the carrying amount of the District's cash deposits was \$1,465,935 and the bank balance on these accounts was \$1,759,937. Funds in the amount of \$906,531 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, 2012, the carrying amount of the District's repurchase agreement was \$1,023,219. The fair market value of the purchased federal agency securities amounted to \$1,043,684. 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, 2012 consists of two accounts in the New Mexico State Treasurer's Local Government Investment Pool (Pool). Participation in the Pool is voluntary. Investments (\$20,171,199) are stated at fair value based on quoted market value as of June 30, 2012.

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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(5) Investments (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The prices of securities fluctuate with market interest rates and securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is the key determinant of the tolerance of the investments to rising interest rates. In general, the longer the WAM, the more susceptible the investments are to rising interest rates. At June 30, 2012, the Pool's WAM, based on stated final maturity date, is 83 days.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2012, 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 \$19,739 during the year ended June 30, 2012. The total interest earned in the Pool was \$55,860 for the year ended June 30, 2012.

(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, irrigable 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, 2012, all receivables for water service and ad valorem assessments are delinquent. It has been the District's experience that a significant portion of the receivables for water service and ad valorem assessments may not be collected within one year. Lien rights are available to the District on all delinquent water service and ad valorem assessments. The District computes allowances on water service and delinquency charges receivable and ad valorem assessments receivable based on management's determination of balances it believes will be uncollectible.

In the government-wide financial statements, water service and ad valorem assessments are recorded as a receivable and revenue when billed to taxpayers. In the fund financial statements, water service assessments collected by the District and ad valorem assessments remitted by the county assessors to the District within thirty days following year end are recorded as revenue; all water service and ad valorem assessments not collected or remitted within thirty days following year end are reported as deferred revenue. For the year ending June 30, 2012, water service assessments were assessed and levied at a uniform rate per acre of \$28.00 based on acreage approximating 54,600 acres. Ad valorem assessments were assessed and levied at a rate of \$3.97 per \$1,000 of valuation of residential property and \$4.96 per \$1,000 valuation of nonresidential property based on valuations determined by the county assessors. Valuations for current and prior years are continually being modified pursuant to present laws, rules and regulations.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(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 so the levee could be certified by the government. The District total cost of the project of \$6,463,173 is included in infrastructure in the accompanying statement of net assets. Upon completion of the project, the government's share of 75% of the total cost (\$4,847,380) was recorded as a receivable from the government to be reimbursed with funds pursuant to Section 593 of the Water Resources Development Act of 1999, Public Law 106-53, as amended. Reimbursement of the full amount of the receivable was contingent upon Congressional approval of an extension of the ceiling for available Section 593 funds. Presently, the section 593 federal Program is awaiting an increase in the Program Authority. In prior years the District received reimbursement from the government totaling \$1,700,000. In September, 2012, the District was advised by the government that total project costs upon which the government share of costs are to be computed amounted to \$5,831,711 after considering federal expenditures and project limitations. Based on this information, the District wrote down the remaining receivable due from the government from \$3,147,380 to \$2,673,783, which is reported in the accompanying statement of net assets and balance sheet as a contract receivable due after one year. The District expects that the remaining funds will be authorized and appropriated by the federal government over a number of budget years subsequent to June 30, 2012, allowing for collection of this receivable.

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. A payable to AMAFCA and County in the amount of \$827,240, 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, 2012

(8) Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance June 30, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2012</u>
Capital assets:				
Land	\$ 457,162	\$ -	\$ 6	\$ 457,156
Buildings and improvements	3,097,617	7,285	-	3,104,902
Office furniture and equipment	982,563	15,300	8,947	988,916
Computer software	202,901	48,460	-	251,361
Engineering equipment	148,199	-	-	148,199
Communication equipment	12,845	-	-	12,845
Motor vehicles and trailers	6,036,184	331,549	-	6,367,733
Weed and pest control equipment	341,347	-	-	341,347
Heavy field equipment	8,375,361	658,406	-	9,033,767
Shop and field equipment	191,076	6,999	-	198,075
Infrastructure	13,244,555	239,701	-	13,484,256
Construction in progress	<u>202,785</u>	<u>-</u>	<u>-</u>	<u>202,785</u>
Total capital assets	<u>33,292,595</u>	<u>1,307,700</u>	<u>8,953</u>	<u>34,591,342</u>
Less accumulated depreciation:				
Buildings and improvements	1,220,243	74,055	-	1,294,298
Office furniture and equipment	851,516	38,350	6,338	883,528
Computer software	26,005	31,350	-	57,355
Engineering equipment	126,435	2,454	-	128,889
Communication equipment	11,896	294	-	12,190
Motor vehicles and trailers	4,608,223	417,696	-	5,025,919
Weed and pest control equipment	278,945	21,046	-	299,991
Heavy field equipment	4,314,738	495,430	-	4,810,168
Shop and field equipment	147,867	8,939	-	156,806
Infrastructure	<u>1,231,207</u>	<u>377,352</u>	<u>-</u>	<u>1,608,559</u>
Total accumulated depreciation	<u>12,817,075</u>	<u>1,466,966</u>	<u>6,338</u>	<u>14,277,703</u>
Capital assets, net	<u>\$ 20,475,520</u>	<u>\$ (159,266)</u>	<u>\$ 2,615</u>	<u>\$ 20,313,639</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(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, 2012 is attributable to the following receivables:

Ad valorem assessments	\$ 1,589,976
Water service and delinquency charges	257,646
Governmental contracts -	
Federal	2,210,302
Local	<u>81,664</u>
	<u>\$ 4,139,588</u>

(10) Accrued Compensated Absences

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2012:

	Balance June 30, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2012</u>
Compensated absences payable				
Payable within one year	\$ 406,030	\$ 781,127	\$ 616,972	\$ 570,185
Payable after one year	<u>474,098</u>	<u>-</u>	<u>16,320</u>	<u>457,778</u>
	<u>\$ 880,128</u>	<u>\$ 781,127</u>	<u>\$ 633,292</u>	<u>\$ 1,027,963</u>

The general fund has been used to liquidate obligations for 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, 2012

(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, 2012, 2011, and 2010 were \$1,408,221, \$1,351,011 and \$1,339,716, 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, 2012, 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, 2012 and 2011, there were nineteen and twenty four retirees, respectively, receiving benefits.

Funding Policy

Costs of the plan are financed on a pay-as-you-go basis. For the year ended June 30, 2012, the District contributed \$150,681 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, 2012 and changes in the obligation.

Annual required contribution	\$ 471,678
Interest on net obligation	80,374
Contributions made from general fund	(150,681)
Increase in obligation	401,371
Obligation, beginning of year	1,786,089
Obligation, end of year	\$ <u>2,187,460</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(12) Other Postemployment Benefits (continued)

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012 is as follows. The actuarial accrued liability (AAL) of \$5,420,838 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, 2012 is \$7,501,458. UAAL is 72% of covered payroll.

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

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, 2011, the projected unit credit cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9% 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, 2012 is 25 years.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(13) Contingencies

Silvery Minnow

In prior years, 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. 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. Initial Court rulings had the Bureau of Reclamation ("Bureau") discretion to reduce deliveries of certain available water under its contracts with the District to comply with the Endangered Species Act. This ruling was dismissed on appeal. Currently, parties to those proceedings are abiding by a 2003 biological opinion issued by the U.S. Fish and Wildlife Service. The river flow requirements of this prior year biological opinion to accommodate the silvery minnows' continued existence have been met during the existing and previous irrigation seasons. In September 2011, the Bureau issued a draft of an updated biological assessment. The District and other interested parties submitted comments on the draft and in September 2012, a revised biological assessment was issued. A new final biological opinion is expected to be issued early in 2013. 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 litigation 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 conveyed 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, 2012

(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, 2012 is as follows:

	<u>General Fund</u>
Deficiency of revenues over expenditures on a non-GAAP budgetary basis	\$ (117,114)
Prior year encumbrances	(640,440)
Current year encumbrances	<u>359,980</u>
Deficiency of revenues over expenditures on a GAAP basis	\$ (<u>397,574</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 construction was completed in April 2010. In September, 2011, the government formally transferred responsibility for the operation and maintenance of the project to the District. In November, 2011, the government completed its interim accounting and cost share analysis for the project. In its interim accounting, the government reported the total projected ecosystem restoration cost was \$5,640,583 and the total projected recreation cost was \$793,546. Based on this accounting, the District's total cost share is estimated at \$1,806,919. A \$302,000 cash contribution was remitted during the year ended June 30, 2009. The District has submitted documentation for in-kind work performed in the amount of \$1,551,279. The government advised the District that it had accepted the District's in-kind work, and that the District had met its requirements for its cost share of the project. Monitoring of the project by the government will continue for a period of time. At the conclusion of the monitoring, the government will complete a final accounting, and will advise the District of any additional costs required.

Middle Rio Grande Restoration Project

In July, 2011, the District entered into a project partnership agreement with the U.S. Department of the Army (government) under which government agreed to design and construct certain ecosystem restoration features and recreation improvements in the Middle Rio Grande Bosque. The estimated cost of the project is \$24,809,000. The District is required to provide, at no cost to the government, lands, easements, and rights-of-way for the project. In addition, upon completion of the project, the District will operate and maintain the project, except for portions of the project within Sandia Pueblo lands, the Rio Grande Valley State Park, and the Corrales Bosque Preserve, which will be operated and maintained by the Pueblo of Sandia, City of Albuquerque, and the Village of Corrales, respectively.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

(15) Commitments (continued)

Middle Rio Grande Flood Damage Reduction Study

In September, 2012, the District entered into an agreement with the U.S. Department of the Army (government) under which the government agreed to conduct a study to identify and evaluate alternatives and make recommendations for flood damage reduction from Bernalillo to Belen, New Mexico. The estimated cost of the study is \$950,000. The District is required to pay 50% of the cost of the study. In September, 2012, the District made an initial payment to the government in the amount of \$150,000.

San Acacia Levee Project

The District and the U.S. Department of the Army (government) are negotiating an agreement for a project to reconstruct approximately 43 miles of the San Acacia levee. The estimated cost of Phase one of the project is approximately \$11,950,000, of which approximately \$9,800,000 would be paid by the government. The District plans to contribute \$300,000 and is currently in the process of obtaining commitments from local entities for the remainder of the estimated cost of the project.

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 \$359,980 at June 30, 2012 are included in assigned fund balances in the accompanying balance sheet.

(16) Subsequent Events

Management has evaluated subsequent events through November 13, 2012, the date which the financial statements were available to be issued.

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, 2012

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)
07/01/11	\$ -0-	\$ 5,420,838	\$ 5,420,838	0%	\$ 7,501,458	72%
07/01/10	-0-	5,420,838	5,420,838	0%	7,201,112	75%
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, 2012

<u>Special Revenue Fund</u>				
	<u>Water</u>	<u>Endowment</u>	<u>Fund</u>	<u>Total</u>
<u>Bank of America</u>	<u>Bank</u>	<u>Savings</u>		
Balance per books	\$ <u>595,532</u>	\$ <u>561,947</u>		\$ <u>1,157,479</u>
Balance per bank	\$ <u>594,584</u>	\$ <u>561,947</u>		\$ 1,156,531
Less: FDIC coverage				<u>250,000</u>
Total uninsured public funds				<u>906,531</u>
50% collateral requirement				453,265
Pledged securities				<u>951,852</u>
Over (under)				\$ <u>498,587</u>
Collateralized by FNMA and FMAC issues as follows:				
<u>Cusip #</u>	<u>Face</u>	<u>Interest</u>	<u>Due</u>	<u>Collateral</u>
	<u>Value</u>	<u>Rate</u>		<u>Value</u>
31391YXX0	\$ 384,334	3.419%	03/01/2029	\$ 413,291
31419GB94	130,935	4.000%	10/01/2040	140,175
31410GZC0	112,274	5.500%	03/01/2037	123,681
31419JSM1	66,717	4.000%	11/01/2040	71,426
31404LV80	48,475	5.500%	06/01/2033	53,522
3128M7ZW9	44,636	5.500%	11/01/2039	49,325
31416BL63	17,667	5.500%	02/01/2038	19,462
31415VYB5	16,450	5.500%	10/01/2035	18,152
Twenty-two similar securities				<u>62,818</u>
Collateral held by Bank of New York Mellon, NY, NY.				\$ <u>951,852</u>
			<u>General</u>	
			<u>Fund</u>	
<u>Wells Fargo Bank NM, NA</u>				
Balance per books			\$ <u>308,456</u>	
Balance per bank			\$ <u>603,406</u>	\$ 603,406
Less: FDIC coverage				<u>603,406</u>
Total uninsured public funds				-
50% collateral requirement				-
Pledged securities				-
Over (under)				\$ <u>-</u>

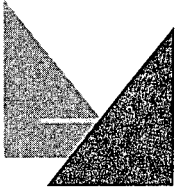
(continued)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
JUNE 30, 2012

Wells Fargo Bank NM, NA, Repurchase Agreement

Balance per agreement	\$ 1,023,219
102% collateral requirement	1,043,684
Pledged securities	<u>1,043,684</u>
Over (under)	\$ <u> -</u>
Collateralized as follows:	
FN-30AJ4020, CUSIP #3138AVPE9, Face value \$975,843, 4.0%, Due 10/01/2041	\$ <u>1,043,684</u>
Collateral held by Wells Fargo Bank Northwest, NA, Salt Lake City, Utah	
Reconciliation to financial statements:	
Bank of America	\$ 1,157,479
Wells Fargo Bank, NM	1,331,675
Cash on hand	<u> 1,000</u>
	\$ <u>2,490,154</u>

(concluded)



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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 13, 2012. 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

Management of the District is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as items 6-1, 12-3 and 12-4 to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 4-1, 10-1, 12-1, and 12-2.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 13, 2012

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Prior Year Findings Reported Not Repeated

- 11-1 Land Sales (Significant Deficiency)
- 11-2 Procurement/Payroll/Per Diem/Disbursements (Significant Deficiency)

Prior Year Findings Modified and Repeated

- 4-1 Personnel Policy (Other)
- 6-1 Water Service Charge Assessments (Significant Deficiency)
- 10-1 Inventory (Other)

Current Year Findings

- 12-1 Code of Conduct (Other)
- 12-2 Disbursements including Travel and Per Diem (Other)
- 12-3 PERA Enrollments (Significant Deficiency)
- 12-4 Grant Reporting (Significant Deficiency)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Prior Year Findings Modified and Repeated

4-1/Personnel Policy (Other)

Criteria

The District has adopted a personnel policy (Rule 29) 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 policies and practices regarding compensation and benefits. Section 10.1 states in part "The compensation plan is intended to provide fair compensation...in relation to the duties and responsibilities of all positions...To this end the Chief Engineer will direct the timely comparative studies of all the factors affecting the level of salaries and make such changes as may be justified. Such adjustments will be made by increasing or decreasing the salary ranges provided in the salary schedule. The rate of pay for each employee will be adjusted in conformance with the adjustment of the salary range for each position." Pay rate changes and approvals are documented with a personnel action form.

Section 9 of the personnel policy, entitled, "Classification" provides for procedures whereby the Chief Engineer may recommend and take action on new, revised or elimination of existing positions.

Condition

Payroll disbursements included instances where the rate of employee pay exceeded the maximum pay range for the applicable position grade in the current 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 have been fully followed.

Cause

The established compensation plan of salary ranges does not in all instances address the length of employee tenure, which may result in employees whose rate of pay exceeds the maximum rate for their position grade.

Recommendation

We recommend the District revise its personnel policy to address circumstances in which it may be appropriate for an employee rate of pay to exceed the maximum pay range for the applicable position grade in the salary schedule and to address how these circumstances are to be handled.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Prior Year Findings Modified and Repeated

4-1/Personnel Policy (Other) (continued)

Response

The District contracted with Public Sector Personnel Consultants (PSPC) to conduct a survey to include employee position classifications, total compensation and fiscal year 2013 salary plan. In May 2012 PSPC presented their findings and recommendations to the full board. In June 2012, the board voted to accept their report but deferred discussion and implementation of specific recommendations to a future time.

The District recognizes that there are instances where some employee pay rates exceed pay ranges due to employee longevity combined with cost of living and merit rate increases over time. In each instance, the pay rate has been approved through the completion of a properly prepared personnel action form.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Prior Year Findings Modified and Repeated

6-1/ Water Service Charge Assessments (Significant Deficiency)

Condition

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

<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>
2012	\$ 531,976	\$ 247,000	\$ 284,976	\$ 204,073
2011	511,312	213,000	298,312	172,571
2010	544,048	189,000	355,048	167,577
2009	457,653	134,000	323,653	147,910

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 2012 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, 2012, the District removed from its books delinquent water service and delinquency charges in the amount of \$14,635.

The District has not yet 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 maybe 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 RESPONSES
JUNE 30, 2012

Prior Year Findings Modified and Repeated

6-1/ Water Service Charge Assessments (Significant Deficiency) (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

On October 22, 2012 at its regularly scheduled board meeting, the Chief Engineer presented to the board Guidelines and Procedures Assessments Office, a comprehensive written directive that provides specific guidance to the Water Assessments Department with respect to the management of delinquent water service charge accounts. The guideline addresses (1) procedures for filing a claim of lien, (2) bad debt write-off procedure, (3) bankruptcy procedure and (4) exempt properties procedures. The assessments department worked for two years with the District's legal counsel to formulate the guidelines and procedures.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Prior Year Findings Modified and Repeated

10-1/Inventory (Other)

Criteria

Inventories of supplies and materials are significant assets of the District. 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. Policies and procedures should also include monitoring the purchases of inventory as well as the quantity of inventory on hand in order to ensure the quantities of inventory on hand are appropriate and reasonable.

Condition

A summary of inventory by location for the prior four years follows:

<u>Year</u>	<u>Cochiti</u>	<u>Albuquerque</u>	<u>Belen</u>	<u>Socorro</u>	<u>Total</u>
2012	\$ 89,603	\$ 490,065	\$ 315,496	\$ 199,934	\$ 1,095,098
2011	100,101	465,064	333,452	176,055	1,074,672
2010	92,241	470,920	261,503	148,571	973,235
2009	92,178	457,305	247,387	170,417	967,287

For one audit test procedure we selected a sample of fifteen inventory items with a total value of approximately \$376,000. We compared the quantity on hand as of June 30, 2012 with the quantity used during the year ended June 30, 2012. Based on the quantity used during the year, the quantity on hand at June 30, 2012 for four of the items amounted to more than three years usage. There had been no usage during the current or prior year for three additional items.

Effect

Without appropriate monitoring, the amount of inventory on hand may exceed quantities that will be expected to be used within a reasonable amount of time.

Cause

The District may not have available certain inventory reports that would more easily enable it to evaluate the quantity of particular items on hand prior to making additional purchases of the same items.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Prior Year Findings Modified and Repeated

10-1/Inventory (Other) (continued)

Recommendation

We commend the District on the improvements it has made in monitoring inventory quantity and dollars and recommend the District continue to emphasize the importance of doing so. We recommend the District establish inventory quantity and usage benchmarks. These benchmarks would then be incorporated into operational practices. We recommend consideration be given to developing a management reporting tool to facilitate the management/monitoring of inventory.

Response

The District recognizes the value and importance of monitoring inventory quantities to ensure on-hand inventory is appropriate and reasonable. As such, it works with its District-wide inventory supply specialist and each division manager to improve inventory planning and ordering issues. Excess inventory is evaluated and transferred between divisions when appropriate. Slow moving inventory will be considered for auction after consulting with division managers on probable future use. The District continues to improve upon inventory reports that are easily shared between divisions and will work to provide effective solutions to inventory management issues including the establishment of on-hand quantity and usage benchmarks.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Current Year Findings

12-1/Code of Conduct (Other)

Criteria

The District is governed by a publicly elected Board of Directors, whose duties and responsibilities are derived from the New Mexico Conservancy Act. The Board has the power to make and adopt rules and regulations for the conduct of the business and affairs of the District.

By resolution BD-09-12-11-47, the Board adopted a code of conduct in September, 2011. The stated purpose of the code of conduct is to provide general guidelines and a minimum standard of conduct for board members, employees, and those persons and businesses with whom the District engages in transactions.

Condition

The code of conduct requires Board members and employees to complete an annual disclosure statement on or before January 1 of each year. In addition, each new employee or Board member is required to complete a disclosure statement within 30 days of employment or assuming duties. The prescribed disclosure statement format indicates that the statement should be completed even if there are no conflicts being reported.

We were advised that disclosure statements had not been obtained from employees on or before January 1, and were not being obtained from new employees. In addition, the personnel manual which employees receive has not been updated to include the new code of conduct.

Effect

The District has not complied with the requirements of the new code of conduct adopted by the Board of Directors.

Cause

The District has implemented the board resolutions as if the code of conduct was not applicable to employees.

Recommendation

We recommend that the District evaluate all new board resolutions to determine that applicable policies and procedures are in place to ensure compliance.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Current Year Findings

12-1/Code of Conduct (Other) (continued)

Response

Beginning January 1, 2013, the Human Resource department will implement employee annual disclosures statements as required by Section D of the Code of Conduct. The employee personnel manual will be updated to include the new code of conduct. It will be the responsibility of the Human Resource department to maintain employee disclosure statements. In addition, and as per the minutes of the January 9, 2012 Board meeting, each Board member will be required to provide an updated annual disclosure statement to the Board Chair and the Chief Engineer. It will be the responsibility of the Board Recording Secretary to maintain Board disclosure statements. The Board will revisit the policy in fiscal year 2013.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Current Year Findings

12-2/ Disbursements including Travel and Per Diem (Other)

Criteria

The District has established policies which comply with state procurement regulations as well as additional internal control policies and practices concerning disbursements. In addition the District's disbursements for travel and per diem reimbursements must comply with state travel and per diem regulations.

Condition

We selected a sample of 40 disbursements in order to verify compliance with the procurement and disbursement policies.

One disbursement for uniforms in the amount of \$16,116 was compared to the allowable contract price for 65 individual line items. The price paid for 25 of the items was found to be greater than the allowable contract price, while the price paid for 31 of the items was less than the allowable contract price. The total net disbursement in excess of the allowable contract price for these items was \$225.

District policy is to enter repairs and repair parts in the equipment repair and maintenance records. 12 of the above disbursements were for equipment repairs or repair parts. One disbursement for equipment parts in the amount of \$10,520 was not properly linked to the equipment repair and maintenance records. One disbursement for equipment parts in the amount of \$11,233 was entered in the equipment repair and maintenance records twice.

We selected a separate sample of 25 disbursements for travel and per diem compliance.

One travel reimbursement was overpaid in the amount of \$9 due to a mathematical error in totaling receipts for meals. One travel reimbursement was overpaid in the amount of \$12 due to including both a reimbursement for an actual meal and a partial day per diem reimbursement for the same day. Two travel reimbursements included a reimbursement for actual cost of lodging which exceeded \$215 per night. Employees or public officers who incur lodging expenses in excess of \$215 per night must obtain the signature of the chairperson of the governing board on the travel voucher prior to requesting reimbursement.

Effect

The District may not have fully complied with the District's internal control policies and practices relating to disbursements.

Cause

Numerous District employees participate in the expenditure processes and all may not have complied with all aspects of the District's internal control policies, procedures, and practices relative to disbursements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Current Year Findings

12-2/ Disbursements including Travel and Per Diem (Other)

(continued)

Recommendation

The District should continue to emphasize procedures and practices relative to established procurement and disbursement policies. The District may consider self audits.

Response

The District continues to emphasize internal control policy and procedures relative to established procurement and disbursement policies. The District treasurer, purchasing officer, purchasing agent and accounts payable clerk will be increasingly vigilant to ensure contract adherence.

Per Diem reimbursements will be signed off by the District treasurer.

Actual lodging in excess of per diem rules and regulations are now being approved by the District's chairperson.

Linking of equipment repair parts to repair and maintenance records is a division function that is cooperatively overseen by accounting personnel. The Accounting Department will continue diligently to work with division personnel by closely monitoring vehicle and fleet management modules to ensure reconciliation with equipment repair purchases.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Current Year Findings

12-3/ PERA Enrollments (Significant Deficiency)

Criteria

Temporary employees are excluded from membership in the public employee retirement system ("PERA"). However, a temporary employee is defined by PERA as an employee who works no more than nine consecutive months. The District is responsible for deducting the applicable contribution from the wages paid to each member for each payroll period and for remitting both the member and the employer contribution by the due date.

Condition

The District hired two temporary employees in August, 2011. These two employees were employed for nine consecutive months as of May, 2012, but were not enrolled in PERA at this time. Neither the member nor the employer contributions for the two employees was remitted to PERA.

Effect

The District has not fully complied with the Public Employees Retirement Act and may be responsible for remitting the amounts due for both the employees and the employer from the time the employees were eligible for PERA to the time they were properly enrolled.

Cause

The District's existing procedures did not detect the employees were enrolled in PERA as soon as they were eligible.

Recommendation

The District should establish procedures to ensure that all employees are properly enrolled in PERA when they become eligible.

Response

As a pre-emptive safeguard, The Human Resource Department (HR) has created a PERA eligibility file within the payroll accounting system that identifies when newly hired temporary employees become PERA eligible. A hardcopy of this file is printed and inserted into the appropriate payroll maintenance folder for the pay period in which PERA eligibility occurs. During each payroll processing period and prior to payroll disbursement, HR reviews the maintenance file to determine eligibility. Upon confirmation, the employee is asked to complete the application and beneficiary forms. HR updates the payroll file to ensure both employee and employer deductions are in place prior to final payroll processing. In addition, HR has created an internal notification "tickler" file in the Outlook calendar.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Current Year Findings

12-4/ Grant Reporting (Significant Deficiency)

Criteria

The District is the recipient of a federal grant from the United States Department of Agriculture under the terms of the Community Forest Reforestation Act of 2000. The grant requires quarterly financial status and cash reporting. The Financial Status Report Form SF-269 is due 30 days after the reporting period.

Condition

The required reports for the quarters ended September 30, 2011 (due October 31, 2011) and December 31, 2011 (due January 31, 2012) were both submitted late on May 18, 2012.

Effect

Failure to comply with grant terms could result in jeopardizing receipt of reimbursements from the grantor as well as future grant awards.

Cause

Responsible District employees did not work together to ensure grant compliance.

Recommendation

The District should continue to emphasize the importance of grant compliance and reporting.

Response

Grant managers are entrusted with the responsibility of ensuring that all grant requirements, including the submission of financial status reports are submitted to the grantor agency in a timely manner. The Accounting department will continue to notify grant managers when quarterly submission of the SF-269 is past due. When the grant manager fails to submit the proper documentation in a timely fashion, the District treasurer will intervene on behalf of the District.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
EXIT CONFERENCE
JUNE 30, 2012

An exit conference was held on, November 12, 2012. Attending were:

Middle Rio Grande Conservancy District

Eugene Abeita, Vice-Chairman
John Kelly, Board Member
Chris Sichler, Board Member
Subhas Shah, Chief Executive Officer
Jeanette Bustamante, Administrative Officer
Steven Houser, Secretary/Treasurer
Melin Villegas-Vargas, Accounting Manager

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.