

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 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, 2013

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

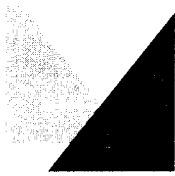
Honorable William Parnall	Division No. 1
Honorable Stan Whitaker	Division No. 2
Honorable Brett Loveless	Division No. 3
Honorable Beatrice Brickhouse	Division No. 4
Honorable Ted Baca	Division No. 5
Honorable Briana Zamora	Division No. 6
Honorable John J. Romero, Jr.	Division No. 7
Honorable Ross C. Sanchez	Division No. 8
Honorable Judith Nakamura	Division No. 9
Honorable Christina P. Argyres	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 Benjamin Chavez	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
Adrian Oglesby, Vice-Chair	4	Bernalillo
Cecil Eugene Abeita	1	At-large
John Kelly	2	Bernalillo
Karen Dunning	3	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



## 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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund of the Middle Rio Grande Conservancy District, State of New Mexico, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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, 2013 and 2012, and the respective changes in financial position and the respective budgetary comparisons for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the schedule of funding progress for the retiree health and dental insurance plan on page 40 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund that collectively comprise the Middle Rio Grande Conservancy District's basic financial statements. The accompanying schedule of cash accounts and pledged collateral as of June 30, 2013 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 at June 30, 2013 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash accounts and pledged collateral at June 30, 2013 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, 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* in considering the Middle Rio Grande Conservancy District's internal control over financial reporting and compliance.

*Mackie, Reid + Company*

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

Albuquerque, New Mexico  
November 12, 2013

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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, 2013. This annual report consists of government-wide and fund financial statements. Government-wide financial statements include the Statement of Net Position 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

- Fiscal year 2013 Total Assets decreased from \$49,610,364 to \$47,311,622 or 4.6% due in part to a decrease of \$675 thousand in Cash on hand and deposited with local banks (see Schedule of Cash Accounts and Pledged Collateral on page 42) and a decrease of \$2.04 million in Cash Deposited with the Local Government Investment Pool (see Footnote 5 – Investments on page 29). Fiscal Year 2013 Ad valorem Assessments Receivable, Net of Allowances increased in Fiscal Year 2013 from \$1,914,315 to \$2,604,968 or 36.1% with receivables from Bernalillo County totaling \$1,225,847 and receivables from Valencia County totaling \$1,137,706. Local Governmental Contracts Receivable increased by \$113 thousand when compared to Fiscal Year 2013. This receivable consisted of \$219,365 from the City of Albuquerque – Alameda Drain and an unexpected Presbyterian Healthcare receivable of \$190,044 due to a premium sharing arrangement between Presbyterian Healthcare and its health insurance carriers from 2007 - 2010 that allowed for reimbursement when claims came in lower than anticipated. Long-term Contract Receivable from the US Army Corp of Engineers of \$2,623,784 was reduced by \$49,999 with a distribution received in late November 2012 (see Footnote 7 Contract Receivable page 31 for detailed information). Net Capital assets including land, depreciable buildings, property and equipment and infrastructure decreased by \$212 thousand. Book value of capital assets at June 30, 2013 was \$20,101,732 compared to \$20,313,639 at June 30, 2012, a decrease of 1.0%. (See Footnote 8 on page 32 for an analysis of capital asset increases, decreases, accumulated depreciation and book values.)
- Fiscal year 2013 Total Liabilities increased from \$4,522,543 to \$4,912,301 or 8.6% with decreases in Voucher Payables of \$105 thousand. Accrued Payroll and Related Benefits Payable remained relatively unchanged. Accrued Compensated Absences Payable within One Year remained relatively unchanged while Accrued Compensated Absences Payable after One Year increased by \$104 thousand (see Footnote 10 on page 34). This was not unexpected, since the District has a low turnover rate and several employees are at, near or above the median pay rate for their position. Obligation for Postemployment Benefits Payable after One Year increased from \$2,187,460 to \$2,604,622 or \$417 thousand from June 30, 2013 and June 30, 2012 (see Footnote 12 Other Postemployment Benefits - Annual Expense and Net Obligation on page 35 for further detail).
- The District's Total Net Position (the difference between Total Assets and Total Liabilities) decreased from \$45,087,821 to \$42,399,321 or 6.0% for the year ended June 30, 2013 when compared to June 30, 2012.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

FINANCIAL HIGHLIGHTS (continued)

- Program Expenses increased from \$18,066,526 for the period ending June 30, 2012 to \$18,723,923 for the period ending June 30, 2013 or an increase of 3.6%.
  - Personnel Services (payroll) increased by \$242 thousand or 3.2% due to cost of living adjustment and merit increases. Employee Benefits increased by \$93 thousand or 2.5%, with increases seen in the employee retirement program (PERA), increases in employee healthcare premium costs and increases in Other Postemployment Benefits (see Footnote 12 – page 36).
  - Contractual Operating and Maintenance Services consisting of El Vado Reserve Works & San Juan Chama - Bureau of Reclamation Agreements increased in total by \$134 thousand with an increase in O&M costs for the El Vado Reserve Works of \$276 thousand and a decrease in for San Juan Chama costs of \$142 thousand.
  - Field expenses remained relatively unchanged with Fiscal Year 2013 costs of \$2,158,616 compared to Fiscal Year 2012 costs of \$2,167,073.
  - General and Administrative expenses increased \$412 thousand from \$2,117,513 as of June 30, 2012 and \$2,529,867 as of June 30, 2013. Fiscal year 2013 Board Election costs of \$256 thousand and General Consulting costs of \$300 thousand to pay matching expenses for the Bernalillo to Belen Levee project accounted for the majority.
  - Depreciation Expense increased by \$65 thousand with Depreciation Expense of \$1,532,131 at June 30, 2013 and \$1,466,966 at June 30, 2012.
  - Internalized Capital Costs including labor, equipment and materials increased \$280 thousand when compared to June 30, 2012 due to the installation and improvement of existing infrastructure at the Belen Division (Tebo Heading & Las Nutrias gate), Socorro Division (Alamillo Acequia gate), and the Albuquerque Division (Albuquerque Main Canal Check 9 and the Atrisco 650 Feeder improvement).
- Program Revenues totaled \$ 2,745,215 for the year ended June 30, 2013, and \$2,906,699 at June 30, 2012 or a decrease of \$161 thousand.
  - Water Service Assessments revenue remained relatively unchanged with revenues of \$1,596,902 at June 30, 2013 and \$1,579,738 at June 30, 2012.
  - Contract Revenue from Federal & Local Governmental Entities decreased by \$298 thousand when compared to June 30, 2012, with total Contract Revenue of \$784,201 at June 30, 2013 compared to \$1,081,952 at June 30, 2012.
- General Revenues totaled \$13,290,213 for the year ended June 30, 2013, a moderate decrease of \$80 thousand when compared to General Revenues of \$13,370,098 at June 30, 2012.
  - Ad valorem Assessment revenue, a major source of District revenue, totaled \$12,866,238 at June 30, 2013, a decrease of \$104 thousand when compared to June 30, 2012, largely due to a decrease in collections from Bernalillo County when compared to June 30, 2012.
  - Delinquency charges remained relatively unchanged.
  - Investment Income decreased by \$21 thousand.
  - Gain (loss) on Equipment and Property Removal increased by \$42 thousand when compared to June 30, 2012, due to on-going auction sales of disposable assets.
  - Gain on Land sales and Water Bank Leases increased by \$10 thousand when compared to June 30, 2012.



STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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 POSITION AND STATEMENT OF ACTIVITIES

The analysis of the District as a whole begins on page 12. The Statement of Net Position 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 position or the difference in net assets and net liabilities. You can think of the District's net position as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the net position 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 Position 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 position 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, 2013

FINANCIAL ANALYSIS

Statement of Net Position:

- Total Assets at June 30, 2013 when compared to 2012 were \$47,311,622 and \$49,610,364 respectively. The District held land and net capital assets of \$20,101,732 as of June 30, 2013 and \$20,313,639 as of June 30, 2012, with accumulated depreciation of \$14,756,216 in 2013 and \$14,277,703 in 2012. (Additions to capital assets are further explained in Notes to the Financial Statements, Footnote Number 8 – Capital Assets, page 32.) The total remaining assets decreased to \$27,209,890 as of June 30, 2013 or 7.1% when compared to \$29,296,724 as of June 30, 2012.
- Total liabilities as of June 30, 2013 and 2012 were \$4,912,301 and \$4,522,543; with current liabilities of \$933,635 compared to fiscal year 2012 of \$1,050,065. The decrease was primarily caused by a decrease in vouchers payable of \$105 thousand when compared to June 30, 2012. Long-term liabilities increased with balances as of June 30, 2013 and June 30, 2012 of \$3,978,666 and \$3,472,478 respectively or an increase of \$506 thousand. The increase was caused by an increase in Accrued Compensated Absences Payable after One Year of \$104 thousand (see Footnote 10 – Accrued Compensated Absences – page 34) and Obligation for Postemployment Benefits Payable of \$417 thousand (see Footnote 12 – Other Postemployment Benefits – pages 35 & 36) and a decrease in Payables to Local Government due after One Year of \$15 thousand (see Footnote 7 - Contracts Receivable on page 31).
- As of June 30, 2013 Total Net Position was \$42,399,321 and included \$20,101,732 Net Invested in Capital Assets (see Footnote 8 - Capital Assets, page 32) and Unrestricted of \$22,297,589. As of June 30, 2012, Total Net Position was \$45,087,821 and included \$20,313,639 Net Invested in Capital Assets and Unrestricted of \$24,774,182. As a result, June 30, 2013 Total Net Position decreased by \$2.7 million or 6.0% when compared to June 30, 2012.

Statement of Activities:

Total Revenues, consisting of Program and General Revenue, for the years ended June 30, 2013 and June 30, 2012 were \$16,035,428 and \$16,276,797, a decrease of 1.5%.

- Program Revenues decreased by \$161 thousand or 5.6% with 2013 program revenues totaling \$2,745,215 compared to \$2,906,699 in 2012. Water Service Assessments remained relatively the same as June 30, 2012. Contracts with Governmental Entities decreased by \$298 thousand. See Financial Highlights - Program Revenue above for additional detail. Operating Grants decreased by \$84 thousand when compared to June 30, 2012 due to the completion of the Collaborative Fire Restoration Program.
- General Revenue decreased by a moderate \$80 thousand from \$13,370,098 at June 30, 2012 to \$13,290,213 at June 30, 2013. The decrease was attributed primarily to a decrease in ad valorem revenue collections of \$104 thousand from Bernalillo County and decrease of \$21 thousand in investment income and an increase of \$42 thousand from Gain on Equipment and Property Removal when compared to June 30, 2012. (See Financial Highlights – General Revenue above for additional detail.
- Total Program Expenses increased by \$657 thousand from up from \$18,066,526 as of June 30, 2012 to \$18,723,928 or 3.6% at June 30, 2013. Personnel Services (payroll) and Employee Benefits increased by \$242 thousand and \$93 thousand respectively; Contractual Operating and Maintenance Services increased by \$134 thousand; total Field Expenses remained relatively the same; General and Administrative expenses increased by \$412 thousand when compared to June 30, 2012. Depreciation Expense increased by \$65 thousand; and, Internal Cost Capitalized increased by \$280 thousand. (See Financial Highlights – Program Expenses above for additional detail.)

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

Balance Sheet-Governmental Funds:

- Total assets decreased \$2.08 million or 7.1% with June 30, 2013 total assets of \$27,236,190 and June 30, 2012 total assets of \$29,317,944. Cash and Cash equivalents decreased from \$2,490,154 at June 30, 2012 to \$1,815,100 at June 30, 2013 or 27.1%. Investments in Local Government Pool decreased from \$20,171,199 at June 30, 2012 to \$18,130,075 or 10.1%. Decreased cash on-hand and investment cash is due, in part, to an expired BIA Pueblo contract (which expired in September of 2012) and an uncollected Long-term Contract Receivable due from the US Army Corp of Engineers for funds spent and not yet reimbursed to complete the Albuquerque West Levee Project. Ad valorem Assessments, Net of Allowance, increased by \$691 thousand, due largely to an increase in Valencia County net ad valorem receivable of \$643 thousand when compared to June 30, 2012. Water Service and Delinquency Charges receivables decreased a modest \$13 thousand when compared to June 30, 2012. Governmental Receivables from Federal and Local Entities, Material and Supply Inventories and Long-term Contract Receivable remained relatively unchanged when compared to June 30, 2012. Interfund receivable increased by \$5 thousand.
- Total Liabilities decreased by \$121 thousand or 9.1% due to a decrease in Vouchers Payable of \$105 thousand when compared to June 30, 2012; Accrued Payroll and Related Benefits, Interfund payable and Other liabilities remained relatively unchanged when compared to June 30, 2012. Payables to Local Governments due after One Year decreased by \$15 thousand.
- Deferred Inflows of Resources increased a modest \$29 thousand when compared to June 30, 2012.
- The net effect of the changes in Total Assets and Total Liabilities and Deferred Inflows of Resources resulted in a net decrease in Total Fund Balances of \$1.99 million or 8.3% with Total Fund Balances of \$21,860,296 at June 30, 2013 and \$23,850,017 at June 30, 2012. At June 30, 2013 Nonspendable Fund Balance (consisting of Inventories and Prepaid Expenses) was \$1,093,292 compared to \$1,096,272 at June 30, 2012. Committed Fund Balance at June 30, 2013 was \$7,178,435 compared to \$7,170,947 at June 30, 2012. Assigned Fund Balance at June 30, 2013 was \$8,214,279 compared to \$7,709,562 at June 30, 2012. Unassigned Fund Balance at June 30, 2013 was \$5,374,290 compared to \$7,873,236 at June 30, 2012. (See Footnote 2 (l) page 27 for an explanation of the various categories of Fund Balances.)

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

- Total revenues decreased by \$1.15 million or 6.7% with total revenues of \$15,967,315 at June 30, 2013 and \$17,118,702 at June 30, 2012. The majority of the decrease was due to the expiration of the BIA Pueblo contract in September 2012, with BIA Pueblo revenue of \$510 thousand at June 30, 2013 and \$1.37 million at June 30, 2012 and a decrease in Ad valorem Assessment Revenue of \$168 thousand when compared to June 30, 2012.
- Total expenditures increased by \$638 thousand or 3.7% with total expenditures of \$17,996,248 at June 30, 2013 and \$17,358,054 at June 30, 2012. The increase is attributable to a \$906 thousand increase in Current Operations, including \$292 thousand in Personnel Services (Payroll), \$77 thousand in Employee Benefits, \$134 thousand in Contractual Services, and \$412 thousand in General Administration expenses which included Board Election expenses of \$256 thousand and \$300 thousand for matching expenses for the Bernalillo to Belen Levee project. Field expenses remained relatively unchanged when compared to June 30, 2012. Capital Outlay expenditures decreased by \$268 thousand when compared to June 30, 2012.
- Other Financing Sources – Equipment Disposition Proceeds was \$39,212 at June 30, 2013.
- As a result of decreased revenues and increased expenses, Fund Balance decreased by \$1.99 million or 8.3% with 2013 fund balance of \$21,860,296 compared to the 2012 fund balance of \$23,850,017.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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 on July 1. The Governing Board and DFA must approve the budget prior to its legal enactment. The original fiscal year budget as presented was approved by the District's Governing Board and DFA. The District does not adopt a legal budget for the special revenue fund. The expenditures of the general fund may not legally exceed the budget.

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. There were no capital lease transactions as of June 30, 2013 or June 30, 2012. For the fiscal years ended June 30, 2013 and 2012, the District budgeted expenditures exceeded revenues by \$4,903,187 and \$3,249,419 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, 2013, actual revenues were \$15,993,484 while budgeted revenues were \$17,286,140 resulting in an unfavorable variance of \$1,292,656. Favorable variances included Ad valorem Assessment Revenue of \$1,033,517, Delinquency Charges of \$11,783, Contract Revenue from Local Governmental Entities \$58,409, Operating and Capital Grants of \$8,758 and Other Revenue of 175,122. The favorable Other Revenue was due in part to a board resolution moving Water Bank Lease Revenue from the Special Revenue Fund to the General Fund. Unfavorable variances included Water Service Assessment Revenue of \$130,287, Investment Income of \$10,996 and Contracts with Federal Governmental Entities of \$2,438,962, caused in part by the expiration of the BIA Pueblo contract which resulted in an unfavorable variance of \$610 thousand and the delay in Bosque del Apache Levee Project resulting in an unfavorable variance of \$1.85 million.

For the year ended June 30, 2013, actual expenditures were \$18,732,437 while budgeted expenses were \$22,189,327 resulting in a favorable variance of \$3,456,890. Favorable variances included Personnel Services of \$566,045, Employee Benefits of \$112,298, Contractual Operating and Maintenance Services of \$29,549, Field Expenses of \$2,799,130 and Capital Outlays of \$113,629. The variance in Field Expense was due in large part to the delay in the Bosque del Apache Levee Project resulting in a \$2,650,018 favorable variance when compared to budget. General and Administration Expenses had an unfavorable variance of \$163,761.

Of the Budgeted Cash Reserve of \$4,903,187, \$2,738,953 was needed to offset the difference in actual revenues and actual expenditures.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2013 and June 30, 2012, the District owned land and capital assets of \$34,857,948 and \$34,591,342 respectively. This included \$16,422,777 in 2013 and \$16,101,966 in 2012 invested in equipment and vehicles; \$3,562,050 in 2013 and \$3,562,058 in 2012 invested in land and buildings; \$445,446 in 2013 and \$988,916 in 2012 invested in office furniture and related equipment (\$437,000 in voting machines and various other office equipment assets were auctioned to the public). Investment in Computer Software totaled \$347,955 as of June 30, 2013 and \$251,361 as of June 30, 2012, with fiscal year 2013 additions including the purchase of Triadic Assessment software and Kronos Time Clock software for \$33 thousand. Construction in Progress remained unchanged when compared to 2012 and includes only the Bernardo Siphon project at \$202,785. Infrastructure assets totaled \$13,876,935 compared to \$13,484,256 at June 30, 2012. Land remained relatively unchanged from \$457,148 as of June 30, 2013 compared to \$457,156 as of June 30, 2012. Major capital additions for the current fiscal year included \$748,675 in heavy field equipment purchases and \$392,679 in additional infrastructure upgrades and improvements. Decreases and Transfers as of June 30, 2013 were \$1,053,626.

Ending accumulated depreciation as of June 30, 2013 and 2012 was \$14,756,216 and \$14,277,703 respectively. Net book value of land and capital assets was \$20,101,732 as of June 30, 2013 and \$20,313,639 as of June 30, 2012.

DISTRICT HIGHLIGHTS

Water Outlook

- For a third straight year, lower than expected snowpack created a reduced run-off in northern New Mexico and southern Colorado exacerbating already dry conditions and contributing to drought conditions and river water flows not seen in the past 100 years. These factors are being cited as major contributors to a stressed irrigation season.
- The District was forced to start releasing supplemental water from El Vado Reservoir in mid-May. That supplemental water supply was exhausted within 15-days leaving the District to rely solely on the natural flow of the Rio Grande and environmental conditions for irrigation.
- The District also ceased deliveries to "Water Bank" users. This is the first time in the existence of the District that irrigators, of any capacity, were restricted on water use. With water shortages, by rules enacted by the Board of Directors, water supplies were stopped to "junior water users" and supply was designated for irrigators with "senior water rights".
- The "monsoonal season" that normally begins in July was of average duration and precipitation allowing the District to reinstate "Water Bank" users. These rains continued into September and an unusual "flood" pattern was experienced with Rio Grande water levels reaching in excess of 6000 cfs in the Albuquerque reach of the river and well above 10,000 cfs in the lower San Acacia reach. All dam structures were unfazed by the flood waters and only minor ditch breaches were reported.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

Bosque Closure

- For the third year 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. Central New Mexico was listed by the National Drought Center as experiencing extreme drought conditions, the worst in the United States. A full closure was ordered by Chief Engineer, Subhas Shah on May 22, restricting use of the bosque in Sandoval, Valencia and Socorro Counties. A partial closure, in conjunction with the City of Albuquerque and Bernalillo County, was initiated in Bernalillo County. All closure orders were lifted fully in all counties on July 16 following several rain storms that decreased the fire danger. No Bosque fires were reported during this closure period.

District Board of Directors Election

- 2013 was an election year in the Middle Rio Grande Conservancy District. Four positions were on the June 4th ballot for Socorro, Sandoval and Bernalillo Counties. All incumbents, Derrick Lente, Adrian Oglesby, Karen Dunning and Chris Sichler were re-elected to four-year terms. The four newly elected members to the Middle Rio Grande Conservancy Board were sworn in Monday, June 10th by the honorable Michael D. Bustamante. Director Derrick Lente was re-elected as Chairman and Adrian Oglesby was elected Vice-Chair.

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  
STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 1,815,100	\$ 2,490,154
Investment in Local Government Investment Pool	18,130,075	20,171,199
Current receivables, net:		
Ad valorem assessments, net of allowance of \$166,400 and \$136,600	2,604,968	1,914,315
Water service and delinquency charges, net of allowance of \$237,000 and \$247,000	271,521	284,976
Governmental Contracts-		
Federal	249,314	355,000
Local	409,409	296,517
Other	12,427	14,509
Prepaid expenses	-	1,174
Material and supply inventories, at cost	1,093,292	1,095,098
Contract receivable from U.S. Department of the Army, due after one year	2,623,784	2,673,783
Capital assets:		
Land	457,148	457,156
Depreciable property, equipment, and infrastructure, net of accumulated depreciation	<u>19,644,584</u>	<u>19,856,483</u>
Total assets	<u>47,311,622</u>	<u>49,610,364</u>
Liabilities		
Vouchers payable	135,794	240,641
Accrued payroll and related benefits payable	194,384	197,592
Other liabilities	39,148	41,647
Accrued compensated absences:		
Payable within one year	564,309	570,185
Payable after one year	562,274	457,778
Payable to local governments, due after one year	811,770	827,240
Obligation for postemployment benefits, payable after one year	<u>2,604,622</u>	<u>2,187,460</u>
Total liabilities	<u>4,912,301</u>	<u>4,522,543</u>
Net position		
Net investment in capital assets	20,101,732	20,313,639
Unrestricted	<u>22,297,589</u>	<u>24,774,182</u>
Total net position	<u>\$ 42,399,321</u>	<u>\$ 45,087,821</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Program Expenses		
Public Works:		
Personnel services	\$ 7,891,636	\$ 7,649,293
Employee benefits	3,874,370	3,781,686
Contractual operating and maintenance services	1,069,462	935,796
Field expenses	2,158,616	2,167,073
General and administrative expenses	2,529,867	2,117,513
Depreciation	1,532,131	1,466,966
Internal costs capitalized	( 332,154)	( 51,801)
Total program expenses	<u>18,723,928</u>	<u>18,066,526</u>
Program revenues		
Charges for services:		
Water service assessments	1,596,902	1,579,738
Contracts with governmental entities-		
Federal	514,145	761,268
Local	270,056	320,684
Other revenue	364,112	161,264
Operating grants	<u>-</u>	<u>83,745</u>
Total program revenues	<u>2,745,215</u>	<u>2,906,699</u>
Net program expense	(15,978,713)	(15,159,827)
General revenues		
Ad valorem assessments	12,866,238	12,969,984
Delinquency charges	181,283	188,360
Investment income	36,263	57,233
Gain (loss) on equipment and property removal	39,212	( 2,615)
Gain on land sales and water bank leases	<u>167,217</u>	<u>157,136</u>
Total general revenues	<u>13,290,213</u>	<u>13,370,098</u>
Decrease in net position	( 2,688,500)	( 1,789,729)
Net position, beginning of year	45,087,821	46,877,550
Net position, end of year	\$ <u>42,399,321</u>	\$ <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, 2013 WITH  
COMPARATIVE 2012 TOTALS

	<u>General</u>	<u>Special Revenue</u>	<u>Governmental Funds</u>	
			<u>Total 2013</u>	<u>Total 2012</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 649,659	\$ 1,165,441	\$ 1,815,100	\$ 2,490,154
Investment in Local Government Investment Pool	11,540,375	6,589,700	18,130,075	20,171,199
Current receivables, net:				
Ad valorem assessments, net of allowance of \$166,400	2,604,968	-	2,604,968	1,914,315
Water service and delinquency charges, net of allowance of \$237,000	271,521	-	271,521	284,976
Governmental Contracts-				
Federal	249,314	-	249,314	355,000
Local	409,409	-	409,409	296,517
Interfund receivable	-	26,300	26,300	21,219
Other	12,427	-	12,427	14,509
Prepaid expenses	-	-	-	1,174
Material and supply inventories, at cost	1,093,292	-	1,093,292	1,095,098
Contract receivable from U.S. Department of Army, due after one year	<u>2,623,784</u>	<u>-</u>	<u>2,623,784</u>	<u>2,673,783</u>
Total assets	<u>\$ 19,454,749</u>	<u>\$ 7,781,441</u>	<u>\$ 27,236,190</u>	<u>\$ 29,317,944</u>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities</b>				
Vouchers payable	\$ 135,794	\$ -	\$ 135,794	\$ 240,641
Accrued payroll and related benefits payable	194,384	-	194,384	197,592
Interfund payable	26,300	-	26,300	21,219
Other liabilities	39,148	-	39,148	41,647
Payable to local governments, due after one year	<u>811,770</u>	<u>-</u>	<u>811,770</u>	<u>827,240</u>
Total liabilities	1,207,396	-	1,207,396	1,328,339
<b>Deferred inflows of resources</b>				
Revenue not available to pay current period expenditures	<u>4,168,498</u>	<u>-</u>	<u>4,168,498</u>	<u>4,139,588</u>
Total liabilities and deferred inflows of resources	<u>5,375,894</u>	<u>-</u>	<u>5,375,894</u>	<u>5,467,927</u>
<b>Fund balances</b>				
<b>Nonspendable</b>				
Inventories	1,093,292	-	1,093,292	1,095,098
Prepaid expenses	-	-	-	1,174
<b>Committed</b>				
Assigned	-	7,178,435	7,178,435	7,170,947
Assigned	7,611,273	603,006	8,214,279	7,709,562
Unassigned	<u>5,374,290</u>	<u>-</u>	<u>5,374,290</u>	<u>7,873,236</u>
Total fund balances	<u>14,078,855</u>	<u>7,781,441</u>	<u>21,860,296</u>	<u>23,850,017</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 19,454,749</u>	<u>\$ 7,781,441</u>	<u>\$ 27,236,190</u>	<u>\$ 29,317,944</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>	Total Governmental Funds
<b>Assets</b>			
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
Interfund receivable	-	21,219	21,219
Other	14,509	-	14,509
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>
<b>Liabilities, deferred inflows of resources and fund balances</b>			
<b>Liabilities</b>			
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	<u>827,240</u>	<u>-</u>	<u>827,240</u>
Total liabilities	1,328,339	-	1,328,339
<b>Deferred inflows of resources</b>			
Revenue not available to pay current period expenditures	<u>4,139,588</u>	<u>-</u>	<u>4,139,588</u>
Total liabilities and deferred inflows of resources	<u>5,467,927</u>	<u>-</u>	<u>5,467,927</u>
<b>Fund balances</b>			
Nonspendable			
Inventories	1,095,098	-	1,095,098
Prepaid expenses	1,174	-	1,174
Committed	-	7,170,947	7,170,947
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, deferred inflows of resources 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 SHEETS TO THE STATEMENTS OF NET POSITION  
GOVERNMENTAL FUNDS  
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Total fund balances (Balance sheets)	\$ 21,860,296	\$ 23,850,017
Amounts reported for governmental activities in the statements of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,101,732	20,313,639
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.	4,168,498	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	( 1,126,583)	( 1,027,963)
Obligation for postemployment benefits	( <u>2,604,622</u> )	( <u>2,187,460</u> )
Total net position (Statements of net position)	\$ <u>42,399,321</u>	\$ <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, 2013 WITH  
COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Special Revenue</u>	<u>Governmental Funds</u>	
			<u>Total 2013</u>	<u>Total 2012</u>
Revenues				
Ad valorem assessments	\$ 12,799,202	\$ -	\$ 12,799,202	\$ 12,967,145
Water service assessments	1,594,435	-	1,594,435	1,606,739
Delinquency charges	181,283	-	181,283	188,360
Investment income	35,254	1,009	36,263	57,233
Contracts with governmental entities-				
Federal	636,024	-	636,024	1,476,964
Local	370,056	-	370,056	428,875
Operating grants	8,758	-	8,758	74,986
Other	174,069	-	174,069	161,264
Water bank leases	155,191	5,034	160,225	154,700
Land sales	<u>-</u>	<u>7,000</u>	<u>7,000</u>	<u>2,436</u>
Total revenues	<u>15,954,272</u>	<u>13,043</u>	<u>15,967,315</u>	<u>17,118,702</u>
Expenditures				
Public works:				
Current operations	17,008,170	-	17,008,170	16,102,155
Capital outlays	<u>988,078</u>	<u>-</u>	<u>988,078</u>	<u>1,255,899</u>
Total expenditures	<u>17,996,248</u>	<u>-</u>	<u>17,996,248</u>	<u>17,358,054</u>
Excess (deficit) of revenues over expenditures	( 2,041,976)	13,043	( 2,028,933)	( 239,352)
Other financing sources				
Equipment disposition proceeds	<u>39,212</u>	<u>-</u>	<u>39,212</u>	<u>-</u>
Increase (decrease) in fund balances	( 2,002,764)	13,043	( 1,989,721)	( 239,352)
Fund balances, beginning of year	<u>16,081,619</u>	<u>7,768,398</u>	<u>23,850,017</u>	<u>24,089,369</u>
Fund balances, end of year	\$ <u>14,078,855</u>	\$ <u>7,781,441</u>	\$ <u>21,860,296</u>	\$ <u>23,850,017</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 STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENTS OF ACTIVITIES  
GOVERNMENTAL FUNDS  
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Decrease in fund balances (Statements of revenues, expenditures and changes in fund balances)	\$ ( 1,989,721)	\$ ( 239,352)
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlay as expenditures, while in the statements of activities the cost of these assets is capitalized.	1,320,232	1,307,700
Governmental funds do not report depreciation expense which is recorded in the statements of activities.	(1,532,131)	(1,466,966)
In the statements 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 position differs from the change in fund balance by the net book value of assets disposed.	( 8)	( 2,615)
Revenues in the statements of activities that do not provide current financial resources are not reported as revenues in the funds, net of prior year effect.	28,910	( 839,290)
Governmental funds do not report the net change in compensated absences.	( 98,620)	( 147,835)
Governmental funds do not report the net change in obligation for other postemployment benefits.	( <u>417,162</u> )	( <u>401,371</u> )
Decrease in net position (Statements of activities)	\$ ( <u>2,688,500</u> )	\$ ( <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, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 11,765,685	\$ 11,765,685	\$ 12,799,202	\$ 1,033,517
Water service assessments	1,724,722	1,724,722	1,594,435	( 130,287)
Delinquency charges	169,500	169,500	181,283	11,783
Investment income	46,250	46,250	35,254	( 10,996)
Contracts with governmental entities-				
Federal	3,074,986	3,074,986	636,024	(2,438,962)
Local	311,647	311,647	370,056	58,409
Operating and capital grants	-	-	8,758	8,758
Other	<u>193,350</u>	<u>193,350</u>	<u>368,472</u>	<u>175,122</u>
 Total revenues	 <u>17,286,140</u>	 <u>17,286,140</u>	 <u>15,993,484</u>	 <u>(1,292,656)</u>
Expenditures				
Current operations				
Personnel services	8,359,061	8,359,061	7,793,016	566,045
Employee benefits	3,569,506	3,569,506	3,457,208	112,298
Contractual operating and maintenance services	1,099,011	1,099,011	1,069,462	29,549
Field expenses	4,948,611	4,948,611	2,149,481	2,799,130
General and administration expense	2,891,046	2,891,046	3,054,807	( 163,761)
Capital outlays	<u>1,322,092</u>	<u>1,322,092</u>	<u>1,208,463</u>	<u>113,629</u>
 Total expenditures	 <u>22,189,327</u>	 <u>22,189,327</u>	 <u>18,732,437</u>	 <u>3,456,890</u>
Deficiency of revenues over expenditures	\$ ( <u>4,903,187</u> )	\$ ( <u>4,903,187</u> )	\$ ( <u>2,738,953</u> )	\$ <u>2,164,234</u>
Prior year fund balance budget basis	\$ <u>15,721,640</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)
<b>Revenues</b>				
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>
<b>Expenditures</b>				
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  
YEARS ENDED JUNE 30, 2013 AND 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) Change in Accounting Principle

For the year ended June 30, 2013, the District implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. GASB Statement 65 reclassifies as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. The changes were also incorporated in the District's financial statements for the year ended June 30, 2012. There was no effect on the beginning net position or beginning fund balance.

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(2) Summary of Significant Accounting Policies (continued)

(c) Government-Wide and Fund Financial Statements

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

The statement of net position incorporates long-term assets and receivables and deferred outflows of resources, as well as long-term debt and obligations, and deferred inflows of resources. The District's net position is reported in three parts - invested in capital assets net of related debt and deferred inflows of resources, if any; restricted net position (none at June 30, 2013); and unrestricted net position.

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, if any, 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.

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 years ended June 30, 2013 or 2012, respectively. 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.

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(2) Summary of Significant Accounting Policies (continued)

(d) 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. Effective January 29, 2013, the Board of Directors directed proceeds of water bank leases, which had previously been accounted for in the Special Revenue Fund, be accounted for in the General Fund.

(e) 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.

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.

(f) 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.

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(2) Summary of Significant Accounting Policies (continued)

(g) 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 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 infrastructure asset policy 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 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.

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 equipment	20 years
Infrastructure	50 years

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(2) Summary of Significant Accounting Policies (continued)

(h) 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, 2013 and 2012, accrued vested annual leave totaled \$736,111 and \$655,372, respectively.

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, 2013 and 2012, accrued vested sick leave totaled \$347,009 and \$330,440, respectively.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2013 and 2012, accrued vested compensatory leave totaled \$20,966 and \$28,846, respectively. Qualified employees are granted one personal holiday per calendar year. At June 30, 2013 and 2012, accrued vested personal holiday leave totaled \$22,497 and \$13,305, respectively.

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.

(i) 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.

(j) 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.

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(2) Summary of Significant Accounting Policies (continued)

(k) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss, including workers' compensation insurance. Settled claims, excluding insurance deductibles, resulting from these risks have not exceeded commercial insurance coverage during the years ended June 30, 2013, 2012, 2011 and 2010, respectively.

(l) Fund Balances

The District reports fund balances in the following categories:

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

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, 2013, the general fund assigned fund balance includes the amount necessary to balance the budget for the year ended June 30, 2014 (\$4,730,563), and in accordance with state budget guidance an amount equal to 1/12 of budgeted expenditures for the year ended June 30, 2014 (\$1,784,541), and the amount of encumbered funds pertaining to the budget for the year ended June 30, 2013 (\$1,096,169). As of June 30, 2012, the general 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.

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 \$7,178,435 and \$7,170,947 as of June 30, 2013 and 2012, respectively, has been reported as a committed fund balance.

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(2) Summary of Significant Accounting Policies (continued)

(m) Budgets and Budgetary Accounting

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

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

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

(n) Use of Estimates

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

(3) Stewardship, Compliance, and Accountability

For the years ended June 30, 2013 and 2012, general fund budgeted expenditures exceeded budgeted revenues by \$4,903,187 and \$3,249,419, respectively. 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.

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(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, 2013 and 2012, the carrying amount of the District's cash deposits was \$1,287,568 and \$1,465,935, respectively, and the bank balance on these accounts was \$1,768,963 and \$1,759,937, respectively. Funds in the amount of \$1,268,964 and \$906,531 as of June 30, 2013 and 2012, respectively, 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, 2013 and 2012, the carrying amount of the District's repurchase agreement was \$526,582 and \$1,023,219, respectively. The fair market value of the purchased federal agency securities at June 30, 2013 and 2012 amounted to \$537,114 and \$1,043,684, respectively. 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, 2013 and 2012 consists of two accounts in the New Mexico State Treasurer's Local Government Investment Pool (Pool). Participation in the Pool is voluntary. Investments totaling \$18,130,075 and \$20,171,199 are stated at fair value based on quoted market value as of June 30, 2013 and 2012, respectively.

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.



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(5) Investments (continued)

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 as of June 30, 2013 and 2012, respectively.

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, 2013 and 2012, the Pool's WAM, based on stated final maturity date, was 90 days and 83 days, respectively.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2013 and 2012, respectively, the Pool has no foreign currency risk, as all investments in the Pool are in U.S. dollar-denominated assets.

The District records the interest earned by the special revenue fund's investment in the Pool in the general fund. This amounted to \$13,165 and \$19,739 during the years ended June 30, 2013 and 2012, respectively. The total interest earned in the Pool was \$35,118 and \$55,860 for the years ended June 30, 2013 and 2012, respectively.

(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, 2013 and 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 inflows of resources. For the years ending June 30, 2013 and 2012, water service assessments were assessed and levied at a uniform rate per acre of \$28 based on acreage approximating 54,200 and 54,600 acres, respectively. Ad valorem assessments for the years ending June 30, 2013 and 2012, respectively, 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.

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(7) Contract Receivable

In 2007, the District entered into agreements with the U. S. Department of the Army (government) under to partially fund District design and construction of improvements to the Albuquerque west levee. The District's total cost of the project amounted to \$6,463,173 and is included in infrastructure in the accompanying statements of net position. The government's funding commitment (75% of eligible costs) has been recorded as a receivable from the government to be paid with federal 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 is contingent upon Congressional approval of an extension of the ceiling for Section 593 funds. Presently, the section 593 federal Program is awaiting an increase in Program Authority.

The initial estimate of the government funding commitment amounted to \$4,847,380 and through June 30, 2011 the District had received \$1,700,000. In September, 2012, the District was advised by the government that total project costs upon which the government's funding commitment is to be computed amounted to \$5,831,771 which considered 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 and reduced federal contract program revenue by \$473,597 in the year ending June 30, 2012. During the year ended June 30, 2013, the District received reimbursement from the government in the amount of \$49,999. The receivable due from the government at June 30, 2013 and 2012 amounts to \$2,623,784 and \$2,673,783, respectively, and is reported in the accompanying statements of net position and balance sheets 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, 2013, allowing for collection of this receivable.

In 2007, the District entered into an agreement with the Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA) and the County of Bernalillo (County), whereby AMAFCA and County each provided \$1 million of the above 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. As of June 30, 2013 and 2012, a combined payable to AMAFCA and County in the amount of \$811,770 and \$827,240, respectively, due after one year, is included in the accompanying statements of net position and balance sheets. It represents AMAFCA and County's share of the contract receivable from the government described above.

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(8) Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance June 30, <u>2012</u>	<u>Increases</u>	<u>Decreases and Transfers</u>	Balance June 30, <u>2013</u>
Capital assets:				
Land	\$ 457,156	\$ -	\$ 8	\$ 457,148
Buildings and improvements	3,104,902	-	-	3,104,902
Office furniture and equipment	988,916	25,282	568,752	445,446
Computer software	251,361	35,059	( 61,535)	347,955
Engineering equipment	148,199	-	( 468)	148,667
Communication equipment	12,845	-	2,050	10,795
Motor vehicles and trailers	6,367,733	56,820	277,015	6,147,538
Weed and pest control equipment	341,347	41,063	22,308	360,102
Heavy field equipment	9,033,767	748,675	236,511	9,545,931
Shop and field equipment	198,075	20,654	8,985	209,744
Infrastructure	13,484,256	392,679	-	13,876,935
Construction in progress	<u>202,785</u>	<u>-</u>	<u>-</u>	<u>202,785</u>
 Total capital assets	 <u>34,591,342</u>	 <u>1,320,232</u>	 <u>1,053,626</u>	 <u>34,857,948</u>
Less accumulated depreciation:				
Buildings and improvements	1,294,298	75,095	-	1,369,393
Office furniture and equipment	883,528	28,865	548,240	364,153
Computer software	57,355	39,073	( 41,023)	137,451
Engineering equipment	128,889	2,229	( 468)	131,586
Communication equipment	12,190	291	2,050	10,431
Motor vehicles and trailers	5,025,919	448,890	277,015	5,197,794
Weed and pest control equipment	299,991	21,193	22,308	298,876
Heavy field equipment	4,810,168	515,368	236,511	5,089,025
Shop and field equipment	156,806	8,751	8,985	156,572
Infrastructure	<u>1,608,559</u>	<u>392,376</u>	<u>-</u>	<u>2,000,935</u>
Total accumulated depreciation	<u>14,277,703</u>	<u>1,532,131</u>	<u>1,053,618</u>	<u>14,756,216</u>
 Capital assets, net	 \$ <u>20,313,639</u>	 \$ ( <u>211,899</u> )	 \$ <u>8</u>	 \$ <u>20,101,732</u>

STATE OF NEW MEXICO  
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(8) Capital Assets (continued)

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>

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MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
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(9) Revenue Not Available to Pay Current Period Expenditures

As described in Notes 2(d) and 6 to the financial statements, receivables which are not considered available are recorded as revenue not available to pay current period expenditures in the fund financial statements. Such revenues at June 30, 2013 and 2012 are attributable to the following receivables:

	<u>2013</u>	<u>2012</u>
Ad valorem assessments	\$ 1,657,012	\$ 1,589,976
Water service and delinquency charges	260,113	257,646
Governmental contracts -		
Federal	2,061,329	2,210,302
Local	<u>190,044</u>	<u>81,664</u>
	<u>\$ 4,168,498</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, 2013:

	Balance June 30, <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2013</u>
Compensated absences payable				
Payable within one year	\$ 570,185	\$ 634,359	\$ 640,235	\$ 564,309
Payable after one year	<u>457,778</u>	<u>198,535</u>	<u>94,039</u>	<u>562,274</u>
	<u>\$ 1,027,963</u>	<u>\$ 832,894</u>	<u>\$ 734,274</u>	<u>\$ 1,126,583</u>

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.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012

(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](http://www.pera.state.nm.us).

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, 2013, 2012, 2011, and 2010 were \$1,458,707, \$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, 2013 and 2012, respectively, 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, 2013 and 2012, there were twenty and nineteen retirees, respectively, receiving benefits.

Funding Policy

Costs of the plan are financed on a pay-as-you-go basis. For the years ended June 30, 2013 and 2012, the District contributed \$133,152 and \$150,681, respectively, under the plan.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012

(12) Other Postemployment Benefits (continued)

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 accounting standards. 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 years ending June 30, 2013 and 2012 and changes in the obligation.

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 451,878	\$ 471,678
Interest on net obligation	98,436	80,374
Contributions made from general fund	( 133,152)	( 150,681)
Increase in obligation	417,162	401,371
Obligation, beginning of year	<u>2,187,460</u>	<u>1,786,089</u>
Obligation, end of year	\$ <u>2,604,622</u>	\$ <u>2,187,460</u>

Funded Status and Funding Progress

The funded status of the plan is as follows. The actuarial accrued liability (AAL) as of June 30, 2013 and 2012 of \$5,085,215 and \$5,420,838, respectively, is equal to the unfunded actuarial accrued liability (UAAL) as the plan has no assets. The funded ratio is 0%.

Covered payroll for the years ending June 30, 2013 and 2012 is \$7,793,016 and \$7,501,458, respectively. UAAL is 65% and 72% of covered payroll for the years ending June 30, 2013 and 2012, respectively.

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, 2012, 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, 2013 and 2012 is 24 and 25 years, respectively.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 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 and is 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 2014. 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 District intervening on a quiet title suit to establish ownership to all District facilities, including dams, canals, drains, bosque areas and all structures within District boundaries. The U.S. government did not counter claim to establish ownership. The government contended that a contract signed in 1951 by the District and the Bureau of Reclamation whereby the Bureau agreed to significantly rehabilitate District facilities and provide ongoing maintenance, gave title to the U.S. government. The reimbursable costs of rehabilitating the District's facilities were repaid to the Bureau by the District in prior years. It is the District's position that it granted an assignment of easement to the Bureau to operate on District property in order to accomplish the purpose of the contract, but did not grant ownership.

In July, 2005 the U.S. District Court ruled that the District's quiet title suit was time barred under the Federal Quiet Title Act and that ownership of certain specific significant District structures and land tracts resided with the U.S. government and that title could be reconveyed by 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  
YEARS ENDED JUNE 30, 2013 AND 2012

(14) Budgetary Basis to GAAP Basis Reconciliation

The reconciliation from the budgetary basis of accounting to the GAAP basis of accounting for the years ended June 30, 2013 and 2012 is as follows for the general fund:

	<u>2013</u>	<u>2012</u>
Deficiency of revenues over expenditures on a non-GAAP budgetary basis	\$ (2,738,953)	\$ ( 117,114)
Prior year encumbrances	( 359,980)	( 640,440)
Current year encumbrances	<u>1,096,169</u>	<u>359,980</u>
Decrease in fund balance on a GAAP basis	\$ ( <u>2,002,764</u> )	\$ ( <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 and advised the District that the District had met the requirements for the District's 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, all of which will be paid by the government. 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  
YEARS ENDED JUNE 30, 2013 AND 2012

(15) Commitments (continued)

Middle Rio Grande Flood Damage Reduction, Bernalillo to Belen

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. During the year ended June 30, 2013 the District has recorded payments to the government in the amount of \$300,000 and has recorded an encumbrance of \$200,000 as of June 30, 2013 for anticipated additional costs. Amounts paid (and encumbrances for budget purposes) are included in general and administrative expenses in the statements of activities and budgetary comparison schedule and in expenditures for current operations in the statement of revenues, expenditures, and changes in fund balance.

Rio Grande Floodway San Acacia to Bosque del Apache Unit

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 government has estimated the total project cost at \$290,000,000, with \$247,000,000 to be paid by the government. The District and other local entities would be responsible for the remaining \$43,000,000 of the cost.

Segment one of the project, consisting of 7.3 miles of levee reconstruction, would take place in three phases. The estimated cost of phase one of segment one is approximately \$20,000,000, of which approximately \$17,000,000 would be paid by the government. The District and other local entities would be responsible for the remaining \$3,000,000.

In July, 2013, the District Board of Directors approved a loan/grant agreement with the New Mexico Water Trust Board (Trust Board) and the New Mexico Finance Authority (Finance Authority). The Trust Board and the Finance Authority will provide \$1,503,968 to finance the project, in the form of a grant in the amount of \$1,353,572 and a loan in the amount of \$150,396 (with certain revenues pledged). The District has encumbered \$300,000 for costs of the project as of June 30, 2013 and has included an additional \$300,000 of costs in the budget for the year ended June 30, 2014. The District 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 \$1,096,169 and \$359,980 at June 30, 2013 and 2012, respectively, are included in assigned fund balances in the accompanying balance sheets.

(16) Subsequent Events

Management has evaluated subsequent events through November 12, 2013, the date which the financial statements were available to be issued. The District has committed to a loan agreement as described in note 15 under the Rio Grande Floodway San Acacia to Bosque del Apache Unit project. The District Board of Directors has agreed to contribute \$226,000 toward the cost of a project feasibility study by the U.S. Department of the Army Bernalillo Levee project. \$70,000 will be paid during the fiscal year ending June 30, 2014 and the remainder during the fiscal year ending June 30, 2015.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH AND DENTAL INSURANCE PLAN  
YEARS ENDED JUNE 30, 2013 AND 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)
07/01/12	\$ -0-	\$ 5,085,215	\$ 5,085,215	0%	\$ 7,793,016	65%
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, 2013

	<u>Special Revenue Fund</u>		<u>Total</u>
	<u>Water Bank</u>	<u>Endowment Fund Savings</u>	
<u>Bank of America</u>			
Balance per books	\$ <u>603,007</u>	\$ <u>562,434</u>	\$ <u>1,165,441</u>
Balance per bank	\$ <u>603,007</u>	\$ <u>562,434</u>	\$ <u>1,165,441</u>
Less: FDIC coverage			<u>250,000</u>
Total uninsured public funds			<u>915,441</u>
50% collateral requirement			457,720
Pledged securities			<u>961,205</u>
Over (under)			\$ <u>503,485</u>

Collateralized by FNMA, GNMA, and FMAC issues as follows:

<u>Cusip #</u>	<u>Face Value</u>	<u>Interest Rate</u>	<u>Due</u>	<u>Collateral Value</u>
31391YXX0	\$ 334,936	3.407%	03/01/2029	\$ 361,608
31419GB94	166,410	4.000%	10/01/2040	173,705
31419AX69	85,737	4.500%	12/01/2040	92,997
31410GZC0	64,471	5.500%	03/01/2037	70,521
36230UCY3	48,758	4.000%	01/15/2041	51,321
31416WZ39	43,291	4.000%	10/01/2040	45,180
31416BL63	32,067	5.500%	02/01/2038	35,077
31404LV80	30,780	5.500%	06/01/2033	33,737
3128M7ZW9	29,043	5.500%	11/01/2039	31,887
Twenty-seven similar securities				<u>65,172</u>

Collateral held by Bank of New York Mellon, NY, NY. \$ 961,205

	<u>General Fund</u>	
<u>Wells Fargo Bank NM, NA</u>		
Balance per books	\$ <u>122,127</u>	
Balance per bank	\$ <u>603,523</u>	\$ 603,523
Less: FDIC coverage		<u>250,000</u>
Total uninsured public funds		353,523
50% collateral requirement		176,762
Pledged securities		<u>327,494</u>
Over (under)		\$ <u>150,732</u>

(continued)

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL  
JUNE 30, 2013

Collateralized by FNMA and FMAC issues as follows:

<u>Cusip #</u>	<u>Face Value</u>	<u>Interest Rate</u>	<u>Due</u>	<u>Collateral Value</u>
3138MSC56	\$ 108,253	3.000%	02/01/2043	\$ 106,180
31419B5R2	81,623	4.500%	09/01/2040	86,776
3138MBYT7	40,284	3.000%	09/01/2042	39,513
3132HNA74	38,311	3.000%	10/01/2042	37,495
31418WPP9	33,125	4.500%	08/01/2040	35,216
3138NYKZ7	14,792	3.000%	12/01/2042	14,508
3138AAYX3	7,337	4.500%	03/01/2041	<u>7,806</u>

Collateral held by Bank of New York, Mellon, NY, NY \$ 327,494

Wells Fargo Bank NM, NA, Repurchase Agreement

Balance per agreement \$ 526,582

102% collateral requirement 537,114

Pledged securities 537,114

Over (under) \$           -

Collateralized as follows:

FN-30Ar1111, CUSIP #3138NXGV3, Face value \$547,665, 3.0%, Due 02/01/2043 \$ 537,114

Collateral held by Federal Reserve Bank, San Francisco, California

Reconciliation to financial statements:

Bank of America \$ 1,165,441

Wells Fargo Bank, NM 648,709

Cash on hand 950

\$ 1,815,100

(concluded)



REPORT OF INDEPENDENT AUDITOR  
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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund of the Middle Rio Grande Conservancy District, State of New Mexico (District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

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

## **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, 12-2, and 13-1.

## **Middle Rio Grande Conservancy District's Responses to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

Albuquerque, New Mexico  
November 12, 2013

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

Prior Year Findings Reported Not Repeated

- 6-1 Water Service Charge Assessments (Significant Deficiency)
- 10-1 Inventory (Other)
- 12-1 Code of Conduct (Other)
- 12-3 PERA Enrollments (Significant Deficiency)
- 12-4 Grant Reporting (Significant Deficiency)

Prior Year Findings Modified and Repeated

- 4-1 Personnel Policy (Other)
- 12-2 Disbursements including Travel and Per Diem (Other)

Current Year Findings

- 13-1 Fuel (Other)



STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

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

Twenty-five payroll disbursements were tested. Payroll disbursements tested included four 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, 2013

Prior Year Findings Modified and Repeated

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

Response

Circumstances in which maximum pay rate has been exceeded:

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.

The Human Resource Director will request, by board resolution, that Rule 29 - Personnel Policy Section 10.1 be amended to include the following: "Upon the recommendation and approval of the Chief Engineer, the salary for employees with extraordinary longevity, may exceed the maximum position salary range."

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

Prior Year Findings Modified and Repeated

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

Criteria

The District has established policies and practices concerning payroll and disbursements. In addition, the District's travel and per diem reimbursements must comply with state travel and per diem regulations.

Condition

We selected a judgmental sample of 25 payroll disbursements. There was one instance of an employee who was paid for 80 hours for which there was no time clock report available for the employee. There were two instances in which there were deductions for an accident plan and one instance in which there was a deduction for a life insurance plan for which there were no copies of the employees' enrollment forms in their personnel files. In addition, there was one instance in which the employee's deduction for a life insurance plan was based on an amount of coverage that did not agree to the employee's enrollment form in the personnel file. There was one instance in which the employee's tax withholding was not calculated in accordance with the W-4 in the employee's personnel file.

We selected a judgmental sample of 25 disbursements for payment of travel and per diem. There was one \$35 reimbursement to a Board member for travel and per diem for which the reimbursement request was not signed or approved. There were two instances of reimbursements of \$784 and \$200 for travel and per diem to employees which were not approved. There was one reimbursement to a Board member for airfare which exceeded the available lower air fare by \$56. State regulations state that actual costs for travel by common carrier may be reimbursed, provided such travel is accomplished in the "most economical manner practical".

Effect

The District may not have fully complied with the District's internal control policies and practices or the state travel and per diem regulations.

Cause

Many of the District's employees have been employed by the District for a number of years. The District does not require employees to re-enroll in or confirm elected benefits each year, and enrollment forms which date back many years may be difficult to locate.

The District's per diem and travel reimbursement policy incorporates the state's per diem and mileage act, but the policy does not restate all the regulations. Numerous employees participate in the disbursement process and all may not have complied with all aspects of the travel and per diem regulations.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

Prior Year Findings Modified and Repeated

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

Recommendation

The District should consider a process whereby employees would confirm their elected benefits on a bi-annual basis.

The District should continue to emphasize and train District employees on procedures and practices relative to established travel and per diem policies, and ensure that appropriate signatures and approvals are obtained in accordance with such policies.

Response

Unavailable time clock report:

The employee in question was an exempt employee, required to punch in/out using the time clock. Payroll record shows that the employee was paid 72 hours of regular pay and 8 hours of sick pay. The signed sick pay request was located; the signed time sheet was not found.

The District has been working to upgrade its legacy time clock system. After many months of discovery and testing, a new system is scheduled to go live in late November 2013. Internal controls within the new system will not allow an employee to be paid without electronic signoffs by the employee and supervisor. This will eliminate the manual time clock report.

Employee Enrollment Forms:

The employee deduction requests were located in the employee file and noted to be several years old; however original enrollment forms could not be found.

Over time the District has contracted with various vendors who provide accident and life insurance coverage. Employee deductions were directly transferred with each vendor change. Since original enrollment forms could not be located we assume they were either lost or misfiled; however, the District prints a summary of deductions bi-weekly on the employee pay stub for their review.

The District is working with its payroll software vendor to extract a customized benefits confirmation statement to be distributed annually to each employee. When implemented, the employee would be required to confirm, sign and return their report to the human resource department to be placed in the employee's file.

W-4 deduction:

To insure employees have access to current W-4 withholdings, Human Resource began printing W-4 information on payroll stubs beginning with the November 15, 2013 payroll.

Per Diem Disbursements:

The District treasurer will monitor per diem disbursements documentation for appropriate signatures, approvals and adherence to state established rules and regulations are maintained.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

Current Year Findings

13-1 Fuel Usage Disbursement (Other)

Criteria

The District has established internal control procedures and practices concerning accounting for fuel usage. Budgeted fuel use for the year amounted to \$946,620.

Condition

We made inquiries and observations with regard to internal control procedures and practices related to fuel usage, both at Cochiti division, which used bulk fuel and all other divisions, which used WEX fuel cards.

The primary control over the bulk fuel at Cochiti was a switch in the office which must be manually switched from the off to on position in order for fuel to be disbursed. However, access to the switch itself was not secured by means of a locked box. In addition, while a fuel log was maintained for each withdrawal of bulk fuel, the log did not contain sufficient information to indicate who withdrew the fuel nor whether a second person was present at the time fuel was withdrawn.

We reviewed WEX reports for one month. The WEX reports reviewed included an Exception Report, a Vehicle Analysis Report for each vehicle, a summary report by division/department, and a summary report by location of the transaction. For the month reviewed, the Exception Report listed numerous exceptions in 6 categories. The largest number of exceptions was cost per transaction, followed by gallons per transaction, and fuel type. Upon our further review of the transactions listed on the Exception Report, the most common reason for the exceptions appeared to be inaccurate or out of date information for the vehicles. However, we did not see evidence of District review of the exceptions in order to make a determination.

The District uses the WEX information to create a report for each division/department which hi-lights transactions that meet certain criteria, such as purchases outside of normal operating hours, out of state purchases, and more than one purchase on the same day. These reports are forwarded to the division/department manager to provide a comment or explanation for the hi-lighted transactions. For the month reviewed, there was no evidence of comments or explanations being provided by four of the six division/departments. There was no evidence of follow-up by the District to obtain the comments or explanations.

Effect

The District may not have fully complied with the District's internal control procedures and practices concerning accounting for fuel usage.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

Current Year Findings

13-1 Fuel Usage Disbursement (Other)

Cause

Existing internal controls and documentation regarding bulk fuel disbursements at Cochiti may not be sufficient to provide appropriate control over fuel usage.

With regard to established procedures for review of WEX fuel card usage and identification of possible exceptions, evidence of inquiries, responses, and determinations made in this review are not always maintained.

Recommendation

The District should continue to emphasize internal control procedures and practices concerning accounting for fuel usage. The internal control procedures should include maintaining sufficient documentation of accountability, as well as inquiries and evaluations in regard to unusual fuel card transactions.

Response

Control over Bulk Fuel Distribution at the Cochiti Division:

Access to the manual on/off switch has been secured through the installation of a lockbox that surrounds the on/off switch. Accountability for the keys to lock/unlock the box is the responsibility to the Cochiti division manager and/or his designee.

District staff have reviewed, discussed and reinforced proper internal control procedures and practices with the division manager and field clerks.

Additionally, the bulk fuel tank was examined to determine measurement and disbursement accuracy. Quotes were obtained to replace the existing measurement devices. Due to the cost of new measuring devices and the age of the bulk fuel tank, the decision was made to discontinue its usage all together.

The Cochiti Division is now purchasing fuel from the District's contracted fuel vendor and no longer utilizes bulk fuel disbursements.

Exception Reporting:

The District recently completed a comprehensive audit of all vehicle and equipment parameters and made adjustments to the Exception Report so information presented is accurate and up-to-date. The accounting department has assigned two staff members to review and work with division managers to ensure that exceptions are addressed and followed up in a timely manner. In addition, Excel pivot tables are being created on a monthly basis and sent to division managers and department heads for exception comments and explanations.

STATE OF NEW MEXICO  
MIDDLE RIO GRANDE CONSERVANCY DISTRICT  
EXIT CONFERENCE  
JUNE 30, 2013

An exit conference was held on, November 19, 2013. Attending were:

Middle Rio Grande Conservancy District

Eugene Abeita, Board Member  
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.