

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
TABLE OF CONTENTS
JUNE 30, 2014 AND 2013

INTRODUCTORY SECTION

	<u>Page</u>
Official Roster	i

FINANCIAL SECTION

Report of Independent Auditors.....	1-3
Management's Discussion and Analysis	4-11
Financial Statements:	
Government-Wide Financial Statements:	
Statements of Net Position	12
Statements of Activities.....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheets	14-15
Reconciliation of the Balance Sheets to the Statements of Net Position	16
Statements of Revenues, Expenditures, and Changes in Fund Balances	17-18
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statements of Activities.....	19
Budgetary Comparison Schedules Budget to Actual (Non-GAAP Budgetary Basis) General Fund.....	20-21
Notes to the Financial Statements	22-40
Required Supplementary Information:	
Schedule of Funding Progress for the Retiree Health and Dental Insurance Plan	41
Schedule of Cash Accounts and Pledged Collateral	42-43
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	44-45
Schedule of Findings and Responses	46-49
Exit Conference.....	50

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
OFFICAL ROSTER
JUNE 30, 2014

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

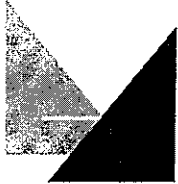
Honorable William Parnall	Division No. 1
Honorable Stan Whitaker	Division No. 2
Honorable Brett Loveless	Division No. 3
Honorable Beatrice Brickhouse	Division No. 4
Honorable Nancy J. Francini	Division No. 5
Honorable Briana Zamora	Division No. 6
Honorable John J. Romero	Division No. 7
Honorable Debra Ramirez	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 Marie Ward	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
Honorable Ned S. Fuller	Division No. 27

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
David M. Fergeson	Secretary/Treasurer
Jeanette Bustamante	Administrative Officer
Wiggins, Williams & Williams	General Counsel
Law & Resource Planning Associates	Chief Water Counsel



MACKIE, REID &
COMPANY, PA

Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

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

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, 2014 and 2013, 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 opinions.

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, 2014 and 2013, 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

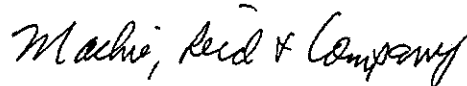
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the schedule of funding progress for the retiree health and dental insurance plan on page 41 be presented to supplement the basic financial statements. 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 audits were 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, 2014 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, 2014 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, 2014 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 10, 2014, 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, P.A.
Certified Public Accountants

Albuquerque, New Mexico
November 10, 2014

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014. 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 2014 Total Assets decreased from \$47,311,622 to \$46,232,202 or 2.3% due in part to a decrease of \$1 million in Investment in Local Government Investment Pool (see Footnote 5 on page 29). Fiscal Year 2014 Ad Valorem Assessments Receivable, Net of Allowances decreased in Fiscal Year 2014 from \$2,604,968 to \$1,900,446 or 27.0% with receivables from Bernalillo County totaling \$1,160,675 and receivables from Valencia County totaling \$515,193. Local Governmental Contracts Receivable decreased by \$141 thousand when compared to Fiscal Year 2013. Long-term Contract Receivable from the United States Department of the Army of \$2,623,784 remained unchanged from Fiscal Year 2013 (see Footnote 7 on page 31 for detailed information). Net Capital Assets including land and depreciable property, equipment and infrastructure decreased by \$196 thousand. Book value of capital assets at June 30, 2014 was \$19,905,672 compared to \$20,101,732 at June 30, 2013, 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 2014 Total Liabilities increased from \$4,912,301 to \$5,538,037 or 12.7% with increases in Voucher Payables of \$102 thousand. Accrued Payroll and Related Benefits Payable increased by \$34 thousand. Accrued Compensated Absences Payable within One Year increased by \$115 thousand while Accrued Compensated Absences Payable after One Year decreased by \$31 thousand (see Footnote 10 on page 34). This decrease can be attributed to the retirement of long term employees whose accrued benefits were paid out. Obligation for Postemployment Benefits Payable after One Year increased from \$2,604,622 to \$3,004,650 or \$400 thousand from June 30, 2013 to June 30, 2014 (see Footnote 12 on page 35 and 36 for further detail).
- In summary, the District's Total Net Position (the difference between Total Assets and Total Liabilities) decreased from \$42,399,321 to \$40,694,165 or 4.0% for the year ended June 30, 2014 when compared to June 30, 2013.
- Program Expenses decreased from \$18,723,928 for the period ending June 30, 2013 to \$18,328,298 for the period ending June 30, 2014 or a decrease of 2.1 %.
 - Personnel Services (payroll) increased by \$291 thousand or 3.7% due to a cost of living increase and payouts to employees that retired during the fiscal year who had significant leave balances. Employee Benefits increased by \$192 thousand or 4.9%, with increases seen in the employee retirement program (PERA), employee healthcare premium costs offset by a slight decrease in Other Postemployment Benefits (see Footnote 12 on page 36).

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

FINANCIAL HIGHLIGHTS (continued)

- Contractual Operating and Maintenance Services consists of costs for El Vado Reserve Works and San Juan Chama under agreements with the Bureau of Reclamation. Costs for the El Vado Reserve Works decreased by \$533 thousand compared to the prior fiscal year. The prior fiscal year included payments to the Bureau of Reclamation for planned projects which the Bureau decided to postpone. This resulted in a reduction of payments for the period ending June 30, 2014. This was slightly offset by an increase of \$23 thousand for the San Juan Chama expenses due to an increase in expected costs charged by the Bureau of Reclamation.
- Field expenses increased by \$53 thousand with Fiscal Year 2014 costs of \$2,212,049 compared to Fiscal Year 2013 costs of \$2,158,616. This is the result of numerous small increases in various accounts.
- General and Administrative expenses decreased \$428 thousand from \$2,529,867 as of June 30, 2013 to \$2,101,965 as of June 30, 2014. General consulting costs were down by \$161 thousand, legal expenses were down by \$79 thousand and the election expenses of \$256 thousand incurred in Fiscal Year 2013 were not required in Fiscal Year 2014. These reductions were offset by slight increases of \$68 thousand in various areas. Some of the increases were: insurance, up by \$7 thousand, collection fees, up by \$10 thousand, (as a result of increased collection of ad valorem assessments) damage claims deductible, up by \$5 thousand and non-capitalized computer equipment up by \$23 thousand.
- Depreciation Expense remained relatively unchanged with Depreciation Expense of \$1,519,192 at June 30, 2014 and \$1,532,131 at June 30, 2013.
- Internal Costs Capitalized including labor, equipment and materials remained relatively unchanged when compared to June 30, 2013.
- Program Revenues totaled \$3,147,342 for the year ended June 30, 2014, and \$2,745,215 for the year ended June 30, 2013 or an increase of \$402 thousand.
 - Water Service Assessments revenue decreased by \$34 thousand with revenues of \$1,562,866 at June 30, 2014 and \$1,596,902 at June 30, 2013.
 - Revenue from Contracts with Federal and Local Governmental Entities decreased by \$37 thousand when compared to June 30, 2013, with total Contract Revenue of \$747,014 at June 30, 2014 compared to \$784,201 at June 30, 2013.
 - Other revenue increased by \$221 thousand with revenues of \$585,467 at June 30, 2014 compared to \$364,112 at June 30, 2013. The District received a refund of prior premiums related to healthcare payments and received a refund from the Bureau of Reclamation for advanced payments for work expected to be done for El Vado Dam which has been delayed. This increase in revenue was offset by slight reductions in Water Bank Administration Fees and Turnout installations in Fiscal Year 2014.
- Grant revenue of \$252 thousand was recognized in the period ended June 30, 2014 for monies to be received from FEMA as the results of costs incurred by the District related to two disaster events in Fiscal Year 2014.
- General Revenues totaled \$13,475,800 for the year ended June 30, 2014, an increase of \$186 thousand when compared to General Revenues of \$13,290,213 for the year ended June 30, 2013.
 - Ad Valorem Assessment Revenue, a major source of District revenue, totaled \$13,103,035 at June 30, 2014, an increase of \$237 thousand when compared to June 30, 2013 total of \$12,866,238. This increase resulted in an increase in collection fees included in General and Administrative expenses.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

FINANCIAL HIGHLIGHTS (continued)

- o Delinquency Charges decrease by \$5 thousand.
- o Investment Income decreased by \$11 thousand.
- o Gain (loss) on Equipment and Property Removal decreased by \$14 thousand when compared to June 30, 2013.
- o Gain on Land Sales and Water Bank Leases decreased by \$21 thousand when compared to June 30, 2013. Fiscal year 2014 Water Bank Leases totaled \$140 thousand and Land Sales totaled \$6 thousand.

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
 - o A Budgetary Comparison Schedule comparing actual results with budgeted or anticipated results.

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The information for 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. The statements using the full accrual basis of accounting take into account all of the current year's revenues and expenses 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. The District's net position is 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 assessments and water service assessments finance most of these activities. On May 27, 2014 the District's Board of Directors increased the mill rate levy to \$4.17 for residential customers and \$5.21 for non-residential customers effective with the assessments mailed out in the later part of 2014. They also increased the water service charge from \$28 per acre to \$31 per acre beginning with calendar year 2015.

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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

FUND FINANCIAL STATEMENTS (continued)

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.

FINANCIAL ANALYSIS

Statement of Net Position:

- Total Assets at June 30, 2014 when compared to 2013 were \$46,232,202 and \$47,311,622, respectively. The District held land and net capital assets of \$19,905,672 as of June 30, 2014 and \$20,101,732 as of June 30, 2013, with accumulated depreciation of \$16,040,229 in 2014 and \$14,756,216 in 2013. (Additions to capital assets are further explained in Footnote 8 on page 32.) The total remaining assets decreased to \$26,326,530 as of June 30, 2014 or 3.2% when compared to \$27,209,890 as of June 30, 2013.
- Total liabilities as of June 30, 2014 and 2013 were \$5,538,037 and \$4,912,301; with Fiscal Year 2014 current liabilities of \$1,190,262 compared to Fiscal Year 2013 of \$933,635. The increase was primarily caused by an increase in vouchers payable of \$102 thousand when compared to June 30, 2013 and an increase in the accrued compensated absences due within one year of \$115 thousand. Long-term liabilities increased with balances as of June 30, 2014 and June 30, 2013 of \$4,347,775 and \$3,978,666, respectively, or an increase of \$369 thousand. The increase was caused by an increase in our Obligation for Postemployment Benefits Payable of \$400 thousand (see Footnote 12 on pages 35 and 36) coupled with a decrease in Accrued Compensated Absences Payable after One Year of \$31 thousand (see Footnote 10 on page 34).
- As of June 30, 2014 Total Net Position was \$40,694,165 and included \$19,905,672 Net Invested in Capital Assets (see Footnote 8 on page 32) and Unrestricted of \$20,788,493. As of June 30, 2013, Total Net Position was \$42,399,321 and included \$20,101,732 Net Invested in Capital Assets and Unrestricted of \$22,297,589. As a result, June 30, 2014 Total Net Position decreased by \$1.7 million or 4.0% when compared to June 30, 2013.

Statement of Activities:

Total Revenues, consisting of Program and General Revenue, for the years ended June 30, 2014 and June 30, 2013 were \$16,623,142 and \$16,035,428, an increase of \$588 thousand dollars or 3.7%.

- Program Revenues increased by \$402 thousand or 14.6% with 2014 program revenues totaling \$3,147,342 compared to \$2,745,215 in 2013. Water Service Assessments decreased \$34 thousand dollars from June 30, 2013. Contracts with Governmental Entities decreased by \$37 thousand. See Financial Highlights - Program Revenue above for additional detail. Other revenue increased by \$221 thousand due to refunds from for prior premiums related to healthcare payments and for a refund from the Bureau of Reclamation for advanced payments for work expected to be done for El Vado Dam which has been delayed. Operating Grants increased by \$252 thousand when compared to June 30, 2013 due to the reimbursement due from FEMA for cleanup of two separate disasters.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

FINANCIAL ANALYSIS (continued)

Statement of Activities (continued):

- General Revenue increased by \$186 thousand from \$13,290,213 at June 30, 2013 to \$13,475,800 at June 30, 2014. The increase was attributed primarily to an increase in Ad Valorem Revenue collections of \$384 thousand from Socorro County, \$27 thousand from Bernalillo County, and \$17 thousand from Sandoval County offset by a decrease of \$192 thousand from Valencia County along with decreases of \$11 thousand in Investment Income, \$14 thousand from Gain on Equipment and Property Removal and \$21 thousand from Gain on Land Sales and Water Bank Leases when compared to June 30, 2013. (See Financial Highlights – General Revenue above for additional detail).
- Total Program Expenses decreased by \$396 thousand from \$18,723,928 as of June 30, 2013 to \$18,328,298 or 2.1% at June 30, 2014. Personnel Services (payroll) and Employee Benefits increased by \$291 thousand and \$192 thousand respectively; Contractual Operating and Maintenance Services decreased by \$510 thousand; Field Expenses increased by \$53 thousand; General and Administrative expenses decreased by \$428 thousand when compared to June 30, 2013. Depreciation Expense remained relatively unchanged; and Internal Costs Capitalized also remained relatively unchanged. (See Financial Highlights – Program Expenses above for additional detail.)

Balance Sheet-Governmental Funds:

- Total assets decreased \$885 thousand or 3.2% with June 30, 2014 total assets of \$26,351,657 and June 30, 2013 total assets of \$27,236,190. Cash and Cash Equivalents increased from \$1,815,100 at June 30, 2013 to \$2,530,468 at June 30, 2014 or 39.4%. Investment in Local Government Pool decreased from \$18,130,075 at June 30, 2013 to \$17,126,806 at June 30, 2014 or 5.5%. Decreases in both accounts are due, in part, to the need to use surplus funds to meet expenses. Ad Valorem Assessment Receivables, Net of Allowances decreased by \$705 thousand, due largely to a decrease in the net receivable from Valencia County of \$623 thousand when compared to June 30, 2013. Water Service and Delinquency Charges Receivable increased by \$38 thousand when compared to June 30, 2013. Governmental Contracts Receivable from Federal and Local Entities, Material and Supply Inventories, Other Receivables and Long-term Contract Receivable increased by \$71 thousand over June 30, 2013. Interfund Receivable remained relatively unchanged.
- Total Liabilities increased by \$140 thousand or 11.6% due to an increase in Vouchers Payable of \$102 thousand and an increase of \$34 thousand in Accrued Payroll and Related Benefits when compared to June 30, 2013; Interfund Payable and Other Liabilities remained relatively unchanged when compared to June 30, 2013. Payables to Local Governments Due After One Year was unchanged.
- Deferred Inflows of Resources increased by \$94 thousand when compared to June 30, 2013.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

FINANCIAL ANALYSIS (continued)

Balance Sheet-Governmental Funds (continued):

- 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 \$1.1 million or 5.1% with Total Fund Balances of \$20,741,725 at June 30, 2014 and \$21,860,296 at June 30, 2013. At June 30, 2014 Nonspendable Fund Balance (Inventories) was \$1,006,898 compared to \$1,093,292 at June 30, 2013. Committed Fund Balance at June 30, 2014 was \$7,184,602 compared to \$7,178,435 at June 30, 2013. Assigned Fund Balance at June 30, 2014 was \$9,533,339 compared to \$8,214,279 at June 30, 2013. Unassigned Fund Balance at June 30, 2014 was \$3,016,886 compared to \$5,374,290 at June 30, 2013. (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 increased by \$559 thousand or 3.5% with total revenues of \$16,526,530 at June 30, 2014 and \$15,967,315 at June 30, 2013. The majority of the increase was due to an increase in collections of ad valorem assessments, a refund from the Bureau of Reclamation for return of monies for advance payments on a project that has been delayed and from a return of healthcare premiums that exceeded the cost of claims and administration for the years of 2007 through 2013.
- Total expenditures decreased by \$344 thousand or 1.9% with total expenditures of \$17,651,919 at June 30, 2014 and \$17,996,248 at June 30, 2013. Other Financing Sources decreased by \$32 thousand to \$7 thousand at June 30, 2014.
- The Fund Balance decreased by \$1.1 million for the fiscal year. The 2014 fund balance is \$20,741,725 compared to the 2013 fund balance of \$21,860,296.

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 outlays financed through capital lease transaction sources, but rather includes actual lease payments made. There were no capital lease transactions as of June 30, 2014 or June 30, 2013. For the fiscal years ended June 30, 2014 and 2013, the District's budgeted expenditures exceeded revenues by \$4,730,563 and \$4,903,187 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, 2014, actual revenues were \$16,526,817 while budgeted revenues were \$16,683,929 resulting in an unfavorable variance of \$157,112. Favorable variances included Ad Valorem Assessment Revenue of \$853,569, Delinquency Charges of \$51,268, Contract Revenue from Federal Governmental Entities \$316,628, and Other Revenue of \$581,643. Unfavorable variances included Water Service Assessment Revenue of \$62,002, Investment Income of \$4,911, Contracts with Local Governmental Entities of \$43,321, and Operating and Capital Grants of \$1,849,986 caused by the delay in San Acacia to Bosque del Apache Levee Project.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

For the year ended June 30, 2014, actual expenditures were \$17,618,837 while budgeted expenses were \$21,414,492 resulting in a favorable variance of \$3,795,655. Favorable variances included Personnel Services of \$287,706, Employee Benefits of \$76,410, Contractual Operating Maintenance Services of \$425,008, Field Expenses of \$2,680,357, General and Administration Expenses of \$228,045 and Capital Outlays of \$98,129. The variance in Field Expense was due in large part to the delay in the San Acacia to Bosque del Apache Levee Project.

Of the Budgeted Cash Reserve of \$4,730,563, \$1,092,020 was needed to offset the difference in actual revenues and actual expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2014 and June 30, 2013, the District owned land and capital assets of \$35,945,901 and \$34,857,948 respectively. This included \$17,028,172 in 2014 and \$16,422,777 in 2013 invested in equipment and vehicles; \$3,567,769 in 2014 and \$3,562,050 in 2013 invested in land and buildings; \$462,685 in 2014 and \$445,446 in 2013 invested in office furniture and related equipment. Investment in Computer Software totaled \$389,560 as of June 30, 2014 and \$347,955 as of June 30, 2013. Construction in Progress remained unchanged when compared to 2013 and includes only the Bernardo Siphon project at \$202,785. Infrastructure assets totaled \$14,294,930 at June 30, 2014 compared to \$13,876,935 at June 30, 2013. Land remained relatively unchanged from \$457,145 as of June 30, 2014 compared to \$457,148 as of June 30, 2013. Major capital additions for the current fiscal year included \$450,320 in heavy field equipment purchases, \$351,394 in motor vehicles and trailers, and \$417,995 in additional infrastructure upgrades and improvements. Decreases and Transfers as of June 30, 2014 were \$239,390.

Ending accumulated depreciation as of June 30, 2014 and 2013 was \$16,040,229 and \$14,756,216 respectively. Net book value of land and capital assets was \$19,905,672 as of June 30, 2014 and \$20,101,732 as of June 30, 2013.

DISTRICT HIGHLIGHTS

Water Outlook

- For a fourth straight year, lower than expected snowpack created a reduced run-off in northern New Mexico and southern Colorado resulting in reduced water flow in the Rio Grande. The District began the irrigation season with roughly 20-thousand acre feet of water in storage. Additions by yearly San Juan Chama allotments increased the storage to about 40-thousand acre feet which was utilized in the summer months to supplement the natural flow in the Rio Grande.
- An additional force on the water supply was a man-made run-off surge initiated to aid the Endangered Rio Grande Silvery Minnow during its spawning season.
- The District also ceased deliveries to "Water Bank" users for the second straight year. With water shortages, enforcing 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 curtailments were lifted and reinstated several times throughout the summer, as outlined in the Water Bank Policy adopted by the Board of Directors on November 12, 2012.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

DISTRICT HIGHLIGHTS (continued)

Water Outlook (continued)

- The “monsoonal season” that normally begins in July was slightly above average and enabled the District to complete the irrigation season utilizing the natural river flows.

Chief Engineer/CEO to Retire

- Chief Engineer/CEO, Subhas Shah announced his retirement in October 2013 effective December 1, 2014. A search for his replacement is ongoing, but as of the end of the fiscal year, no replacement had been named.

Bosque Closure Ends

- A Bosque closure enacted in Fiscal Year 2013 was lifted in July of Fiscal Year 2014. No other closures were ordered in the fiscal year.

Change in Mill Rate

- On May 27, 2014 the District’s Board of Directors increased the mill rate levy to \$4.17 for residential customers and \$5.21 for non-residential customers effective with the assessments mailed out in the latter part of 2014. They also increased the water service charge from \$28 per acre to \$31 per acre beginning with calendar year 2015.

WildEarth Guardians Lawsuits

- The environmental group, WildEarth Guardians (“WEG”), filed a lawsuit against the United States Bureau of Reclamation. The claim is that improper water management is depriving the endangered Rio Grande Silvery Minnow of water for spawning and has resulted in a reduced habitat area for the fish. The District disagrees with the WEG assertion and filed a motion to intervene in the suit. There was no opposition to that request and the District was granted intervention status.
- Additionally, WEG filed a notice of intent to file suit against the District with regard to the Rio Grande Silvery Minnow and the District’s water diversions and structures used for those diversions.

Agreement with Bureau of Indian Affairs

- The District and the Bureau of Indian Affairs, after the end of the fiscal year, signed a two year agreement for the District to provide Operations and Maintenance Services for Pueblos in order to ensure delivery of adequate irrigation water and to maintain the Pueblo facilities. For the periods ending February 2015 and 2016 the District will be paid \$669 thousand and \$722 thousand, respectively.

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 /P. O. Box 581
Albuquerque, NM 87103
(505) 247-0234

-11-

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Assets		
Cash and cash equivalents	\$ 2,530,468	\$ 1,815,100
Investment in Local Government Investment Pool	17,126,806	18,130,075
Current receivables, net:		
Ad valorem assessments, net of allowance of \$298,810 and \$166,400	1,900,446	2,604,968
Water service and delinquency charges, net of allowance of \$224,600 and \$237,000	309,912	271,521
Governmental Contracts-		
Federal	525,250	249,314
Local	268,633	409,409
Other	34,333	12,427
Material and supply inventories, at cost	1,006,898	1,093,292
Contract receivable from United States Department of the Army, due after one year	2,623,784	2,623,784
Capital assets:		
Land	457,145	457,148
Depreciable property, equipment, and infrastructure, net of accumulated depreciation	<u>19,448,527</u>	<u>19,644,584</u>
Total assets	<u>46,232,202</u>	<u>47,311,622</u>
Liabilities		
Vouchers payable	238,108	135,794
Accrued payroll and related benefits payable	228,275	194,384
Other liabilities	44,148	39,148
Accrued compensated absences:		
Payable within one year	679,731	564,309
Payable after one year	531,355	562,274
Payable to local governments, due after one year	811,770	811,770
Obligation for postemployment benefits, payable after one year	<u>3,004,650</u>	<u>2,604,622</u>
Total liabilities	<u>5,538,037</u>	<u>4,912,301</u>
Net position		
Net investment in capital assets	19,905,672	20,101,732
Unrestricted	<u>20,788,493</u>	<u>22,297,589</u>
Total net position	<u>\$ 40,694,165</u>	<u>\$ 42,399,321</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Program Expenses		
Public Works:		
Personnel services	\$ 8,182,407	\$ 7,891,636
Employee benefits	4,065,990	3,874,370
Contractual operating and maintenance services	559,414	1,069,462
Field expenses	2,212,049	2,158,616
General and administrative expenses	2,101,965	2,529,867
Depreciation	1,519,192	1,532,131
Internal costs capitalized	(312,719)	(332,154)
Total program expenses	<u>18,328,298</u>	<u>18,723,928</u>
Program revenues		
Charges for services:		
Water service assessments	1,562,866	1,596,902
Contracts with governmental entities-		
Federal	470,400	514,145
Local	276,614	270,056
Other revenue	585,467	364,112
Operating grants	<u>251,995</u>	<u>-</u>
Total program revenues	<u>3,147,342</u>	<u>2,745,215</u>
Net program expense	(15,180,956)	(15,978,713)
General revenues		
Ad valorem assessments	13,103,035	12,866,238
Delinquency charges	176,268	181,283
Investment income	25,061	36,263
Gain on equipment and property removal	25,248	39,212
Gain on land sales and water bank leases	<u>146,188</u>	<u>167,217</u>
Total general revenues	<u>13,475,800</u>	<u>13,290,213</u>
Decrease in net position	(1,705,156)	(2,688,500)
Net position, beginning of year	<u>42,399,321</u>	<u>45,087,821</u>
Net position, end of year	\$ <u>40,694,165</u>	\$ <u>42,399,321</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014 WITH
COMPARATIVE 2013 TOTALS

	<u>Governmental Funds</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Total 2014</u>	<u>Total 2013</u>
Assets				
Cash and cash equivalents	\$ 1,357,323	\$ 1,173,145	\$ 2,530,468	\$ 1,815,100
Investment in Local Government Investment Pool	10,537,106	6,589,700	17,126,806	18,130,075
Current receivables, net:				
Ad valorem assessments, net of allowance of \$298,810	1,900,446	-	1,900,446	2,604,968
Water service and delinquency charges, net of allowance of \$224,600	309,912	-	309,912	271,521
Governmental Contracts-				
Federal	525,250	-	525,250	249,314
Local	268,633	-	268,633	409,409
Interfund receivable	-	25,127	25,127	26,300
Other	34,333	-	34,333	12,427
Material and supply inventories, at cost	1,006,898	-	1,006,898	1,093,292
Contract receivable from United States Department of Army, due after one year	<u>2,623,784</u>	<u>-</u>	<u>2,623,784</u>	<u>2,623,784</u>
Total assets	<u>\$ 18,563,685</u>	<u>\$ 7,787,972</u>	<u>\$ 26,351,657</u>	<u>\$ 27,236,190</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Vouchers payable	\$ 238,108	\$ -	\$ 238,108	\$ 135,794
Accrued payroll and related benefits payable	228,275	-	228,275	194,384
Interfund payable	25,127	-	25,127	26,300
Other liabilities	44,148	-	44,148	39,148
Payable to local governments, due after one year	<u>811,770</u>	<u>-</u>	<u>811,770</u>	<u>811,770</u>
Total liabilities	1,347,428	-	1,347,428	1,207,396
Deferred inflows of resources				
Revenue not available to pay current period expenditures	<u>4,262,504</u>	<u>-</u>	<u>4,262,504</u>	<u>4,168,498</u>
Total liabilities and deferred inflows of resources	<u>5,609,932</u>	<u>-</u>	<u>5,609,932</u>	<u>5,375,894</u>
Fund balances				
Nonspendable				
Inventories	1,006,898	-	1,006,898	1,093,292
Committed	-	7,184,602	7,184,602	7,178,435
Assigned	8,929,969	603,370	9,533,339	8,214,279
Unassigned	<u>3,016,886</u>	<u>-</u>	<u>3,016,886</u>	<u>5,374,290</u>
Total fund balances	<u>12,953,753</u>	<u>7,787,972</u>	<u>20,741,725</u>	<u>21,860,296</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 18,563,685</u>	<u>\$ 7,787,972</u>	<u>\$ 26,351,657</u>	<u>\$ 27,236,190</u>

See accompanying notes to financial statements

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 649,659	\$ 1,165,441	\$ 1,815,100
Investment in Local Government Investment Pool	11,540,375	6,589,700	18,130,075
Current receivables, net:			
Ad valorem assessments, net of allowance of \$166,400	2,604,968	-	2,604,968
Water service and delinquency charges, net of allowance of \$237,000	271,521	-	271,521
Governmental Contracts-			
Federal	249,314	-	249,314
Local	409,409	-	409,409
Interfund receivable	-	26,300	26,300
Other	12,427	-	12,427
Material and supply inventories, at cost	1,093,292	-	1,093,292
Contract receivable from United States Department of Army, due after one year	<u>2,623,784</u>	<u>-</u>	<u>2,623,784</u>
Total assets	\$ <u>19,454,749</u>	\$ <u>7,781,441</u>	\$ <u>27,236,190</u>
Liabilities, deferred inflows of resources and fund balances			
Liabilities			
Vouchers payable	\$ 135,794	\$ -	\$ 135,794
Accrued payroll and related benefits payable	194,384	-	194,384
Interfund payable	26,300	-	26,300
Other liabilities	39,148	-	39,148
Payable to local governments, due after one year	<u>811,770</u>	<u>-</u>	<u>811,770</u>
Total liabilities	1,207,396	-	1,207,396
Deferred inflows of resources			
Revenue not available to pay current period expenditures	<u>4,168,498</u>	<u>-</u>	<u>4,168,498</u>
Total liabilities and deferred inflows of resources	<u>5,375,894</u>	<u>-</u>	<u>5,375,894</u>
Fund balances			
Nonspendable			
Inventories	1,093,292	-	1,093,292
Committed	-	7,178,435	7,178,435
Assigned	7,611,273	603,006	8,214,279
Unassigned	<u>5,374,290</u>	<u>-</u>	<u>5,374,290</u>
Total fund balances	<u>14,078,855</u>	<u>7,781,441</u>	<u>21,860,296</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>

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Total fund balances (Balance sheets)	\$ 20,741,725	\$ 21,860,296
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.	19,905,672	20,101,732
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.	4,262,504	4,168,498
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	(1,211,086)	(1,126,583)
Obligation for postemployment benefits	(<u>3,004,650</u>)	(<u>2,604,622</u>)
Total net position (Statements of net position)	\$ <u>40,694,165</u>	\$ <u>42,399,321</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, 2014 WITH
COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Governmental Funds</u>	
			<u>Total 2014</u>	<u>Total 2013</u>
Revenues				
Ad valorem assessments	\$ 13,197,669	\$ -	\$ 13,197,669	\$ 12,799,202
Water service assessments	1,528,734	-	1,528,734	1,594,435
Delinquency charges	176,268	-	176,268	181,283
Investment income	24,357	704	25,061	36,263
Contracts with governmental entities-				
Federal	416,628	-	416,628	636,024
Local	260,468	-	260,468	370,056
Operating grants	-	-	-	8,758
Other	775,511	-	775,511	174,069
Water bank leases	140,364	-	140,364	160,225
Land sales	<u>-</u>	<u>5,827</u>	<u>5,827</u>	<u>7,000</u>
Total revenues	<u>16,519,999</u>	<u>6,531</u>	<u>16,526,530</u>	<u>15,967,315</u>
Expenditures				
Public works				
Current operations	16,637,295	-	16,637,295	17,008,170
Capital outlays	<u>1,014,624</u>	<u>-</u>	<u>1,014,624</u>	<u>988,078</u>
Total expenditures	<u>17,651,919</u>	<u>-</u>	<u>17,651,919</u>	<u>17,996,248</u>
Excess (deficit) of revenues over expenditures	(1,131,920)	6,531	(1,125,389)	(2,028,933)
Other financing sources				
Equipment disposition proceeds	<u>6,818</u>	<u>-</u>	<u>6,818</u>	<u>39,212</u>
Increase (decrease) in fund balances	(1,125,102)	6,531	(1,118,571)	(1,989,721)
Fund balances, beginning of year	<u>14,078,855</u>	<u>7,781,441</u>	<u>21,860,296</u>	<u>23,850,017</u>
Fund balances, end of year	<u>\$ 12,953,753</u>	<u>\$ 7,787,972</u>	<u>\$ 20,741,725</u>	<u>\$ 21,860,296</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

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem assessments	\$ 12,799,202	\$ -	\$ 12,799,202
Water service assessments	1,594,435	-	1,594,435
Delinquency charges	181,283	-	181,283
Investment income	35,254	1,009	36,263
Contracts with governmental entities-			
Federal	636,024	-	636,024
Local	370,056	-	370,056
Operating grants	8,758	-	8,758
Other	174,069	-	174,069
Water bank leases	155,191	5,034	160,225
Land sales	<u>-</u>	<u>7,000</u>	<u>7,000</u>
Total revenues	<u>15,954,272</u>	<u>13,043</u>	<u>15,967,315</u>
Expenditures			
Public works			
Current operations	17,008,170	-	17,008,170
Capital outlays	<u>988,078</u>	<u>-</u>	<u>988,078</u>
Total expenditures	<u>17,996,248</u>	<u>-</u>	<u>17,996,248</u>
Excess (deficit) of revenues over expenditures	(2,041,976)	13,043	(2,028,933)
Other financing sources			
Equipment disposition proceeds	<u>39,212</u>	<u>-</u>	<u>39,212</u>
Increase (decrease) in fund balances	(2,002,764)	13,043	(1,989,721)
Fund balances, beginning of year	<u>16,081,619</u>	<u>7,768,398</u>	<u>23,850,017</u>
Fund balances, end of year	\$ <u>14,078,855</u>	\$ <u>7,781,441</u>	\$ <u>21,860,296</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Decrease in fund balances (Statements of revenues, expenditures and changes in fund balances)	\$ (1,118,571)	\$ (1,989,721)
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.	1,327,343	1,320,232
Governmental funds do not report depreciation expense which is recorded in the statements of activities.	(1,519,192)	(1,532,131)
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.	(4,211)	(8)
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.	94,006	28,910
Governmental funds do not report the net change in compensated absences.	(84,503)	(98,620)
Governmental funds do not report the net change in obligation for other postemployment benefits.	(400,028)	(417,162)
Decrease in net position (Statements of activities)	\$ (1,705,156)	\$ (2,688,500)

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, 2014

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 12,344,100	\$ 12,344,100	\$ 13,197,669	\$ 853,569
Water service assessments	1,590,736	1,590,736	1,528,734	(62,002)
Delinquency charges	125,000	125,000	176,268	51,268
Investment income	29,268	29,268	24,357	(4,911)
Contracts with governmental entities-				
Federal	100,000	100,000	416,628	316,628
Local	303,789	303,789	260,468	(43,321)
Operating and capital grants	1,849,986	1,849,986	-	(1,849,986)
Other	<u>341,050</u>	<u>341,050</u>	<u>922,693</u>	<u>581,643</u>
Total revenues	<u>16,683,929</u>	<u>16,683,929</u>	<u>16,526,817</u>	<u>(157,112)</u>
Expenditures				
Current operations				
Personnel services	8,385,610	8,385,610	8,097,904	287,706
Employee benefits	3,742,372	3,742,372	3,665,962	76,410
Contractual operating and maintenance services	984,422	984,422	559,414	425,008
Field expenses	4,857,469	4,857,469	2,177,112	2,680,357
General and administration expense	2,460,619	2,460,619	2,232,574	228,045
Capital outlays	<u>984,000</u>	<u>984,000</u>	<u>885,871</u>	<u>98,129</u>
Total expenditures	<u>21,414,492</u>	<u>21,414,492</u>	<u>17,618,837</u>	<u>3,795,655</u>
Deficiency of revenues over expenditures	\$ (<u>4,730,563</u>)	\$ (<u>4,730,563</u>)	\$ (<u>1,092,020</u>)	\$ <u>3,638,543</u>
Prior year fund balance budget basis	\$ <u>12,982,687</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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	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
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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, 2014 or 2013, respectively); 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, (3) operating and capital grants, if any, which finance specific operating and construction activities, (4) other revenue with a program nature.

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, 2014 or 2013, 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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, 2014 and 2013, accrued vested annual leave totaled \$813,839 and \$736,111, 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, 2014 and 2013, accrued vested sick leave totaled \$352,238 and \$347,009, respectively.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2014 and 2013, accrued vested compensatory leave totaled \$22,104 and \$20,966, respectively. Qualified employees are granted one personal holiday per calendar year. At June 30, 2014 and 2013, accrued vested personal holiday leave totaled \$22,905 and \$22,497, 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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, 2014, 2013, 2012 and 2011, 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, 2014, the general fund assigned fund balance includes the amount necessary to balance the budget for the year ended June 30, 2015 (\$5,716,766), and in accordance with state budget guidance an amount equal to 1/12 of budgeted expenditures for the year ended June 30, 2015 (\$2,150,116), and the amount of encumbered funds pertaining to the budget for the year ended June 30, 2014 (\$1,063,087). As of June 30, 2013, the general 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). The special revenue assigned fund balance includes accumulated amounts from prior year 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 \$7,184,602 and \$7,178,435 as of June 30, 2014 and 2013, respectively, has been reported as a committed fund balance.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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.

(o) New Accounting Standard

In June, 2012, the Government Accounting Standards Board issued a new standard (GASB 68), “*Accounting and Financial Reporting for Pensions*” which addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pensions plans that are administered through trusts or equivalent arrangements, that meet the characteristics defined in the new standard. The new standard will be effective for periods beginning after June 30, 2014. The new standard will substantially change accounting and financial reporting for the District’s participation in the Public Employees Retirement System (“PERA”), a cost sharing multiple-employer defined benefit retirement plan.

The standard will impact the District’s government wide financial statements which are presented using the economic resources measurement focus and the accrual basis of accounting. Participating employers (which includes the District) in the cost-sharing multiple-employer pension plan will be required to recognize a liability for their proportionate share of PERA’s net pension liability and to recognize as pension expense and to report deferred outflows of resources and deferred inflows of resources related to pensions for their proportionate share of PERA’s pension expense and collective deferred outflows of resources and deferred inflows of resources. The District as a participating employer in the PERA plan has described current required information as reported in Note 11 to the financial statements.

While the District has not yet determined the dollar impact of this standard on its financial statements and disclosures, the District expects the effect of adopting the standard will be material.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(3) Stewardship, Compliance, and Accountability

For the years ended June 30, 2014 and 2013, general fund budgeted expenditures exceeded budgeted revenues by \$4,730,563 and \$4,903,187, 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.

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, 2014 and 2013, the carrying amount of the District's cash deposits was \$2,529,518 and \$1,287,568, respectively, and the bank balance on these accounts was \$2,644,669 and \$1,768,963, respectively. Funds in the amount of \$2,144,669 and \$1,268,964 as of June 30, 2014 and 2013, 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.

During the years ended June 30, 2014 and 2013, respectively, surplus funds were used to purchase an undivided fractional interest in the principal amount of government securities each day and the following day resold with an interest factor. At June 30, 2013, the carrying amount of the District's repurchase agreement was \$526,582. The fair market value of the purchased federal agency securities at June 30, 2013 amounted to \$537,114. The carrying amount of the repurchase agreement was subject to custodial credit risk as purchased securities are held by the counterparty's agent not in the District's name. As of June 30, 2014, the District is no longer participating in a repurchase agreement.

(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, 2014 and 2013 consists of two accounts in the New Mexico State Treasurer's Local Government Investment Pool ("Pool"). Participation in the Pool is voluntary. Investments totaling \$17,126,806 and \$18,130,075 are stated at fair value based on quoted market value as of June 30, 2014 and 2013, respectively.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(5) Investments (continued)

The Pool was established in 1991 as a short-term investment fund and is not registered with the SEC. The State Treasurer, with advice and consent of the State Board of Finance is authorized to invest the short-term investment funds in accordance with sections 6-10-10 I through P and sections 6-10-10.1 A and E, NMSA 1978. The Pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned by the Pool is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the Pool and the length of time the amounts in the Pool were invested.

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment in the Pool is subject to credit risk. The Pool is rated AAAM by Standard and Poor's as of June 30, 2014 and 2013, 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, 2014 and 2013, the Pool's WAM, based on stated final maturity date, was 116 days and 90 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, 2014 and 2013, respectively, the Pool has no foreign currency risk, as all investments in the Pool are in United States 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 \$10,251 and \$13,165 during the years ended June 30, 2014 and 2013, respectively. The total interest earned in the Pool was \$24,273 and \$35,118 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, all receivables for water service and ad valorem assessments are delinquent. It has been the District's experience that a significant portion of the receivables for water service and ad valorem assessments may not be collected within one year. Lien rights are available to the District on all delinquent water service and ad valorem assessments. The District computes allowances on water service and delinquency charges receivable and ad valorem assessments receivable based on management's determination of balances it believes will be uncollectible.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

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

In the government-wide financial statements, water service and ad valorem assessments are recorded as a receivable and revenue when billed to taxpayers. In the fund financial statements, water service assessments collected by the District and ad valorem assessments remitted by the county assessors to the District within thirty days following year end are recorded as revenue; all water service and ad valorem assessments not collected or remitted within thirty days following year end are reported as deferred inflows of resources. For the years ending June 30, 2014 and 2013, water service assessments were assessed and levied at a uniform rate per acre of \$28 based on acreage approximating 54,000 and 54,200 acres, respectively. Ad valorem assessments for the years ending June 30, 2014 and 2013, 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.

(7) Contract Receivable

In 2007, the District entered into agreements with the United States Department of the Army (“government”) 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 (\$4,373,783) was 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.

In December 2009, the District received \$1,700,000. 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, 2014 and 2013 amounts to \$2,623,784, 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, 2014, allowing for collection of this receivable.

In 2007, the District also 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, 2014 and 2013, a combined payable to AMAFCA and County in the amount of \$811,770, 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.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(8) Capital Assets

Capital asset activity for the year ended June 30, 2014, is as follows:

	Balance June 30, <u>2013</u>	<u>Increases</u>	<u>Decreases and Transfers</u>	Balance June 30, <u>2014</u>
Capital assets:				
Land	\$ 457,148	\$ -	\$ 3	\$ 457,145
Buildings and improvements	3,104,902	5,722	-	3,110,624
Office furniture and equipment	445,446	35,289	18,050	462,685
Computer software	347,955	43,755	2,150	389,560
Engineering equipment	148,667	9,572	-	158,239
Communication equipment	10,795	-	-	10,795
Motor vehicles and trailers	6,147,538	351,394	143,301	6,355,631
Weed and pest control equipment	360,102	6,269	7,338	359,033
Heavy field equipment	9,545,931	450,320	68,548	9,927,703
Shop and field equipment	209,744	7,027	-	216,771
Infrastructure	13,876,935	417,995	-	14,294,930
Construction in progress	<u>202,785</u>	<u>-</u>	<u>-</u>	<u>202,785</u>
Total capital assets	<u>34,857,948</u>	<u>1,327,343</u>	<u>239,390</u>	<u>35,945,901</u>
Less accumulated depreciation:				
Buildings and improvements	1,369,393	75,144	-	1,444,537
Office furniture and equipment	364,153	33,802	15,992	381,963
Computer software	137,451	46,795	-	184,246
Engineering equipment	131,586	2,627	-	134,213
Communication equipment	10,431	291	-	10,722
Motor vehicles and trailers	5,197,794	386,253	143,301	5,440,746
Weed and pest control equipment	298,876	19,135	7,338	310,673
Heavy field equipment	5,089,025	540,023	68,548	5,560,500
Shop and field equipment	156,572	8,486	-	165,058
Infrastructure	<u>2,000,935</u>	<u>406,636</u>	<u>-</u>	<u>2,407,571</u>
Total accumulated depreciation	<u>14,756,216</u>	<u>1,519,192</u>	<u>235,179</u>	<u>16,040,229</u>
Capital assets, net	\$ <u>20,101,732</u>	\$ (<u>191,849</u>)	\$ <u>4,211</u>	\$ <u>19,905,672</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(8) Capital Assets (continued)

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

	Balance June 30, <u>2012</u>	<u>Increases</u>	Decreases and <u>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
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(9) Revenue Not Available to Pay Current Period Expenditures

As described in Notes 2(e) 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, 2014 and 2013 are attributable to the following receivables:

	<u>2014</u>	<u>2013</u>
Ad valorem assessments	\$ 1,562,378	\$ 1,657,012
Water service and delinquency charges	294,245	260,113
Governmental contracts -		
Federal	2,337,265	2,061,329
Local	45,978	190,044
Delayed equipment disposition proceeds	<u>22,638</u>	<u>-</u>
	<u>\$ 4,262,504</u>	<u>\$ 4,168,498</u>

(10) Accrued Compensated Absences

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2014:

	Balance June 30, <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2014</u>
Compensated absences payable				
Payable within one year	\$ 564,309	\$ 692,761	\$ 577,339	\$ 679,731
Payable after one year	<u>562,274</u>	<u>348,848</u>	<u>379,767</u>	<u>531,355</u>
	<u>\$ 1,126,583</u>	<u>\$ 1,041,609</u>	<u>\$ 957,106</u>	<u>\$ 1,211,086</u>

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 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, 2014 AND 2013

(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.

Funding Policy

Plan members were required to contribute 4.7875% of their gross salary (if their annual salary exceeded \$20,000) or 3.2875% of their gross salary (if their annual salary is below \$20,000) for the year ended June 30, 2014. Plan members are required to contribute 3.2875% of their gross salary for the year ended June 30, 2013. (The District pays 9.86% of the employee gross salary on behalf of the employee required contribution amount during the years ended June 30, 2014 and June 30, 2013, respectively). The District contributed 19.0125% of the gross covered salary during each of the years ended June 30, 2014 and 2013, respectively. 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, 2014, 2013, 2012, and 2011 were \$1,511,652, \$1,458,707, \$1,408,221, and \$1,351,011, 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 years ending June 30, 2014 and 2013, 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, 2014 and 2013, there were twenty 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, 2014 and 2013, the District contributed \$143,449 and \$133,152, respectively, under the plan.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(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, 2014 and 2013 and changes in the obligation.

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 426,269	\$ 451,878
Interest on net obligation	117,208	98,436
Contributions made from general fund	(143,449)	(133,152)
Increase in obligation	400,028	417,162
Obligation, beginning of year	<u>2,604,622</u>	<u>2,187,460</u>
 Obligation, end of year	 <u>\$ 3,004,650</u>	 <u>\$ 2,604,622</u>

Funded Status and Funding Progress

The funded status of the plan is as follows. The actuarial accrued liability ("AAL") as of June 30, 2014 and 2013 is \$5,085,215 and 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, 2014 and 2013 is \$8,097,904 and \$7,793,016, respectively. UAAL is 63% and 65% of covered payroll for the years ending June 30, 2014 and 2013, 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 declining to an ultimate rate of 5% in 2020. The District's UAAL is being amortized using the level dollar, open amortization method. The remaining amortization period at June 30, 2014 and 2013 is 23 and 24 years, respectively.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(13) Contingencies

Silvery Minnow

In prior years, the District was a 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 United States government agencies' obligations and authorities to provide protection for the silvery minnow including managing river flow to accommodate their existence. Initial Court rulings had the United States 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 United States 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 2015. 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 United States government did not counter claim to establish ownership. The United States government contended that a contract signed in 1951 by the District and the Bureau whereby the Bureau agreed to significantly rehabilitate District facilities and provide ongoing maintenance, gave title to the United States 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 United States 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 United States government and that title could be reconveyed by United States congressional action. The District 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 United States 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 United States 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 United States Congressional action, further title dispute resolution is dependent on future United States 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, 2014 AND 2013

(13) Contingencies (continued)

Current Litigation

In July, 2014, the Wildearth Guardians (“plaintiff”) brought suit against the United States Bureau of Reclamation and the United States Army Corps of Engineers (“government defendants”) seeking the government to use disputed authorities regarding Rio Grande water storage and timing and volume of Rio Grande water flows for two endangered species, the Rio Grande silvery minnow and the Southwestern willow flycatcher as afforded by the Endangered Species Act.

In August, 2014, the District filed a motion to intervene in the lawsuit brought against the government in the United States District Court in order to continue to protect its water rights and those of its constituents, conduct its operations in a manner that benefits its irrigators and constituents, and cooperate to provide protections for endangered species and for existing and future water uses. In November, 2014, the Court ordered that the District be joined as a defendant.

In August, 2014, the District received a notice of intent to sue the District by the same plaintiff. The notice stated the plaintiff intended to bring a civil suit against the District for violating the Endangered Species Act with respect to ongoing water management actions and activities including diversion of water from the Rio Grande causing habitat modification impacting effected endangered species. The District will vigorously contest the suits.

(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, 2014 and 2013 is as follows for the general fund:

	<u>2014</u>	<u>2013</u>
Deficiency of revenues over expenditures on a non-GAAP budgetary basis	\$ (1,092,020)	\$ (2,738,953)
Prior year encumbrances	(1,096,169)	(359,980)
Current year encumbrances	<u>1,063,087</u>	<u>1,096,169</u>
Decrease in fund balance on a GAAP basis	\$ <u>(1,125,102)</u>	\$ <u>(2,002,764)</u>

(15) Commitments

Bosque Revitalization @ Route 66

In July, 2008, the District entered into a project cooperation agreement with the United States 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 through 2021. At the conclusion of the monitoring the government will complete a final accounting, and will advise the District of any additional costs required.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(15) Commitments (continued)

Middle Rio Grande Restoration Project

In July, 2011, the District entered into a project partnership agreement with the United States 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.

Middle Rio Grande Flood Damage Reduction, Bernalillo to Belen

In September, 2012, the District entered into an agreement with the United States 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 initial estimated cost of the study was \$950,000. During 2014, the government revised the estimated cost of the study to \$1,380,000. The District is required to pay 50% of the cost of the study. During the years ended June 30, 2014 and 2013, the District has recorded payments to the government in the amount of \$200,000 and \$300,000, respectively. Amounts paid are included in general and administrative expenses in the statements of activities and in expenditures for current operations in the statement of revenues, expenditures, and changes in fund balance. The remaining commitment of \$190,000 as of June 30, 2014, consisting of \$150,000 cash and \$40,000 in-kind will be required by July, 2015.

Rio Grande Floodway San Acacia to Bosque del Apache Unit

In August, 2014, the District, the New Mexico Interstate Stream Commission ("ISC"), and the United States Department of the Army ("government") signed a project partnership agreement for a project to replace approximately 43 miles of spoil bank along the west bank of the Rio Grande with an engineered levee. Currently the government has estimated over the terms of the partnership the total project cost at \$287,000,000, with \$243,950,000 to be paid by the government. The District and the ISC would be responsible for the remaining \$43,050,000 of cost. Upon completion of construction, the District shall operate and maintain the project.

The project management plan for segment one of the project, consisting of 7.3 miles, was signed by the District, ISC, and the government in August, 2014. Segment one of the project will take place in three phases. The estimated cost through phase two of segment one is approximately \$34,000,000, of which approximately \$29,000,000 would be paid by the government. The District, ISC, and other local entities would be responsible for the remaining \$5,000,000.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

(15) Commitments (continued)

Rio Grande Floodway San Acacia to Bosque del Apache Unit (continued)

In conjunction with funding commitments in 2014 and 2013, the District Board of Directors has approved loan/grant agreements 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 \$3,003,968 to finance the project, in the form of grants in the amount of \$2,853,572 and a loan in the amount of \$150,396 (with certain revenues pledged). As of November 10, 2014, the District had not yet requested funds from the Trust Board under these agreements.

The District has budgeted \$300,000 for costs of the project in each year of the three years ended June 30, 2015. In August, 2014, the District paid \$975,000 to the government for its share of costs through phase two of segment one of the project, consisting of \$900,000 of District funds and \$75,000 from another local entity. It is expected ISC will contribute \$1,186,032 and the State of New Mexico will contribute \$1,000,000 from severance tax bond funding for the project. The District is continuing the process of obtaining commitments for the remaining balance of the project.

Bernalillo New Mexico Section 205 Feasibility

The District agreed to take over local sponsorship of the feasibility study for the Bernalillo levee project from the Town of Bernalillo and Eastern Sandoval County Arroyo Flood Control Authority.

In July, 2014, the District Board of Directors agreed to execute an agreement with the United States Department of the Army ("government") for a feasibility study for flood risk management for the Town of Bernalillo, New Mexico. The government has estimated the cost of the feasibility study at \$472,000, of which \$236,000 would be paid by the government. The District's cost share of \$236,000 would consist of cash of \$226,000 and in-kind of \$10,000.

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 \$1,063,087 and \$1,096,169 at June 30, 2014 and 2013, respectively, are included in assigned fund balances in the accompanying balance sheets.

(16) Subsequent Events

Management has evaluated subsequent events through November 10, 2014, the date which the financial statements were available to be issued.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH AND DENTAL INSURANCE PLAN
YEARS ENDED JUNE 30, 2014 AND 2013

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)
07/01/13	\$ -0-	\$ 5,085,215	\$ 5,085,215	0%	\$ 8,097,904	63%
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, 2014

	<u>Special Revenue Fund</u>		
	<u>Water Bank</u>	<u>Endowment Fund Savings</u>	<u>Total</u>
<u>Bank of America</u>			
Balance per books	\$ <u>603,369</u>	\$ <u>569,775</u>	\$ <u>1,173,144</u>
Balance per bank	\$ <u>603,369</u>	\$ <u>569,775</u>	\$ <u>1,173,144</u>
Less: FDIC coverage			<u>250,000</u>
Total uninsured public funds			<u>923,144</u>
50% collateral requirement			461,572
Pledged securities			<u>969,301</u>
Over (under)			\$ <u>507,729</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	\$ 287,243	3.36%	03/01/2029	\$ 311,165
3138MFR41	232,468	3.50%	11/01/2042	240,058
3138X6P41	130,452	4.00%	10/01/2043	138,992
3132GUBR4	55,415	3.50%	06/01/2042	57,126
3141GZC0	42,544	5.50%	03/01/2037	47,895
3138EGJZ8	27,692	5.50%	10/01/2038	31,239
Thirty three similar securities				<u>142,826</u>

Collateral held by Bank of New York Mellon, NY, NY. \$ 969,301

	<u>General Fund</u>	
<u>Wells Fargo Bank NM, NA</u>		
Balance per books	\$ <u>1,356,374</u>	
Balance per bank	\$ <u>1,471,525</u>	\$ 1,471,525
Less: FDIC coverage		<u>250,000</u>
Total uninsured public funds		1,221,525
50% collateral requirement		610,763
Pledged securities		<u>786,723</u>
Over (under)		\$ <u>175,960</u>

(continued)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
JUNE 30, 2014

Collateralized by FNMA issues as follows:

<u>Cusip #</u>	<u>Face</u> <u>Value</u>	<u>Interest</u> <u>Rate</u>	<u>Due</u>	<u>Collateral</u> <u>Value</u>
31418ANY0	\$ 593,932	3.00%	01/01/2043	\$ 588,863
3138W9AZ3	134,137	3.50%	07/01/2043	138,671
3138A2BQ1	55,526	4.00%	12/01/2040	<u>59,189</u>
Collateral held by Bank of New York, Mellon, NY, NY				\$ <u>786,723</u>

Reconciliation to financial statements:

Bank of America	\$ 1,173,144
Wells Fargo Bank, NM	1,356,374
Cash on hand	<u>950</u>
	\$ <u>2,530,468</u>

(concluded)



MACKIE, REID &
COMPANY, PA

Certified Public Accountants

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, 2014 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 10, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2014-001.

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 results 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 10, 2014.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Prior Year Findings Reported Not Repeated

- 4-1 Personnel Policy (Other)
- 12-2 Disbursements including Travel and Per Diem (Other)
- 13-1 Fuel (Other)

Prior Year Findings Modified and Repeated

None

Current Year Findings

- 2014-001 Work Orders (Findings that Do Not Rise to the Level of a Significant Deficiency)
- 2014-002 Infrastructure Capitalization (Material Weakness)

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Current Year Findings

2014-001 Work Orders (Findings that Do Not Rise to the Level of a Significant Deficiency)

Criteria

Uses of data derived from the District's work order system may include accumulation of costs for self-constructed infrastructure, accumulation of costs charged to grants, and accumulation of costs for operations and maintenance. It is important for the work order system to provide accurate information.

Condition

In the process of reviewing support for the cost of capitalized, self-constructed infrastructure 41 work orders were selected for testing, of which 25 were for labor hours for 16 employees, 10 were for equipment hours for 5 units of equipment, and 6 were for inventory or supplies.

One work order for 8 labor hours for one employee exceeded the hours worked by that employee as recorded in the time reporting system on that date by 2 hours.

All employee labor rates tested were agreed to employee pay rates per the payroll system without exception; however, it was noted that no factor for benefits was included in the labor rates.

The equipment rates used for the 5 units of equipment could not be verified to documented rates from Equipment Watch, the service used by the District to obtain equipment rates. In 4 instances, the rates used were less than the documented rates provided from Equipment Watch, and in 1 instance the rate used was greater than the documented rate provided from Equipment Watch.

Effect

Data derived from the District's work order system may not be accurate.

Cause

Labor hours are manually entered by each employee on a work order; actual hours worked derive from a separate time reporting system. The possibility for human error resulting in differences between the two systems exists.

The District has not developed consistent procedures for entering, documenting, and maintaining equipment rates. Due to employee turnover, over time various employees have been responsible for equipment rates and have not left sufficient documentation and support for rates entered into the work order system.

Recommendation

We recommend the District establish procedures to ensure labor hours recorded in the work order system are in agreement with labor hours recorded in the time reporting system. We recommend the District document its determination that no factor for benefits should be included in the labor rates in the work order system. We recommend the District establish procedures with regard to updating and monitoring equipment rates, including documenting rates recorded in the work order system.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Current Year Findings

2014-001 Work Orders (Findings that Do Not Rise to the Level of a Significant Deficiency) (continued)

Response

Concerning establishing procedures to ensure labor hours in the work order system are in agreement with the time reporting system steps are being taken to ensure they tie in the future. Research will be done to determine if the accounting system can generate a report of exceptions to be reviewed by staff on a periodic basis so corrections can be made as needed. If not, manual procedures will be put in place to require each Division Office to ensure the accuracy of the information entered into the work order system. In addition, the payroll accountant and the accountant handling the work order system will verify on a monthly basis that the two systems are in sync. Discrepancies between the two systems will be resolved in a timely manner.

On the second part of this recommendation, the Secretary/Treasurer will re-evaluate whether benefits can be included in the labor rates in the work order system. If they can be then every effort will be made to include them. The new Secretary/Treasurer prefers to include benefits in the labor rates. If they cannot be included then the District will document why they cannot be included in the labor rates.

A procedure has been established to set new rates every May for the upcoming fiscal year and to provide supporting documentation for the outside auditors.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Current Year Findings

2014-002 Infrastructure Capitalization (Material Weakness)

Criteria

The District's stated accounting policy with regard to infrastructure is to capitalize infrastructure assets having a cost of \$100,000 or more and a useful life of 50 years or more. Generally accepted accounting principles define capital additions to include assets which are internally generated or self-constructed.

Condition

During the current fiscal year, a large project was completed at the Socorro Main Canal. The accounting department was not aware of the scope of the project and failed to assess whether it met the cost threshold for capitalization of infrastructure.

Effect

The District did not comply with its stated accounting policy with regard to capitalization of infrastructure.

Cause

The District has not developed consistent procedures to identify projects undertaken in each of the divisions which would meet the criteria for capitalization.

Recommendation

We recommend the District establish procedures with regard to identifying, valuing, and recording self-constructed additions to capital assets, including infrastructure.

Response

Steps have already been implemented to prevent this from occurring in the future.

Self-constructed assets occur mainly with the Winter Rehab Projects undertaken each year from early November through late February of the following year. The accounting staff has met with each Division Manager to discuss the upcoming projects and to make the Division Managers aware of the need to keep the accounting department informed of any project that will meet the threshold for capitalization. The projects will be monitored on a monthly basis to ensure costs are being accounted for accurately and accounting will contact the Division Managers with any issues found.

A formal procedure is being prepared that will document the process.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
EXIT CONFERENCE
JUNE 30, 2014

An exit conference was held on November 18, 2014. 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
David M. Fergeson, 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.

