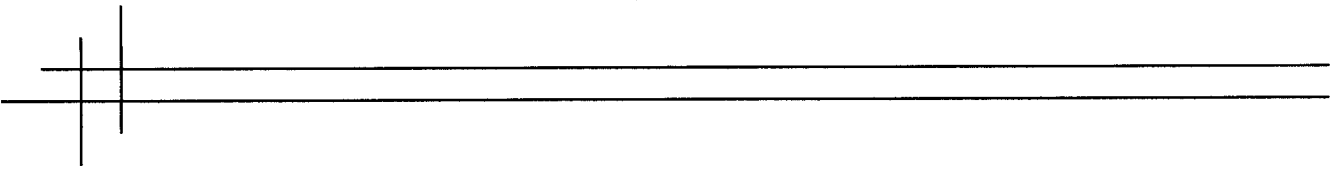




PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
ROSWELL, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2006

De'Aun Willoughby CPA, PC
Certified Public Accountant
Melrose, New Mexico



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For the Year Ended June 30, 2006

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PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Official Roster

June 30, 2006

BOARD OF DIRECTORS

Wesley Menefee	Chairman
Bill Netherlin	Vice-Chairman
Ben Kerr	Secretary/Treasurer
Greg Alpers	Assistant Secretary/Treasurer
Jim Richardson	Member

ADMINISTRATIVE STAFF

Dennis Karnes	Superintendent
Patty Barresi	Clerk

De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(505) 253-4313

Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Mr. Balderas and Members of the Board

We have audited the accompanying basic financial statements of the business-type activities of the Pecos Valley Artesian Conservancy District (District), as of and for the year ended June 30, 2006, as listed in the table of contents. We have also audited the budget comparison presented as supplementary information in the accompanying financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the business-type activities of the District as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, the financial statements referred to above present fairly in all material respects the budgetary comparison of the District for the year ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 29, 2008 on our consideration of the District's internal control over financial reporting and 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 Governmental Auditing Standards and should be considered in assessing the results of our audit.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements and budgetary comparisons presented as supplemental information.

De'Aun Willoughby CPA PC

August 29, 2008

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Statement of Net Assets
June 30, 2006

ASSETS

Current Assets

Cash in Banks	\$ 3,233,876
Property Taxes Receivable	94,713
Interest Receivable	67,868
Inventory	63,542
Total Current Assets	<u>3,459,999</u>

Non-current Assets

Capital Assets

Land	61,405
Buildings & Improvements	278,054
Meters	462,339
Vehicles & Equipment	346,368
Less Accumulated Depreciation	<u>(312,923)</u>
Total Capital Assets	<u>835,243</u>
Conservation Loans Receivables	3,512,780
Water Rights	3,959,628
Total Non-current Assets	<u>8,307,651</u>

Total Assets 11,767,650

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	39,048
Taxes Payable	860
Total Current Liabilities	<u>39,908</u>

Non-current Liabilities

Compensated Absences	<u>65,904</u>
Total Non-current Liabilities	<u>65,904</u>

Total Liabilities 105,812

Net Assets

Invested in Capital Assets	835,243
Invested in Water Rights	3,959,628
Unrestricted	6,866,967
Total Net Assets	<u>\$ 11,661,838</u>

The notes to the financial statements are an integral part of this statement.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006

Operating Revenues	
Meter Sales and Other Operating Revenues	\$ <u>93,756</u>
Operating Expenses	
Salaries	245,696
Employee Benefits	177,954
Legal Fees	387,284
Basin Water Master	234,727
Co-op and Joint Powers Agreements	47,060
Insurance and Bonds	31,365
Irrigation Meter Supplies	48,666
Directors-Travel, Meetings and Conferences	14,203
Services	20,374
Maintenance	3,769
Supplies	8,684
Utilities	6,497
Office	4,640
Plugging Expenses	9,898
Depreciation	64,891
Miscellaneous	170
Total Expenses	<u>1,305,878</u>
Operating Income (Loss)	<u>(1,212,122)</u>
Nonoperating Revenues (Expenses)	
Property Taxes	1,455,774
Tax Collection Expenses	(14,588)
Interest Income	198,302
Interest Expense	(7,074)
Loss on the Disposition of Assets	(3,686)
	<u>1,628,728</u>
Change in Net Assets	<u>416,606</u>
Net Assets at Beginning of Year	10,964,458
Restatement	280,774
Restated Beginning Net Assets	<u>11,245,232</u>
Net Assets at End of Year	<u>\$ 11,661,838</u>

The notes to the financial statements are an integral part of this statement.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2006

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 93,831
Payments to Employees and Suppliers	(1,243,039)
Net Cash Provided by Operating Activities	<u>(1,149,208)</u>
Cash Flows from Non-capital Financing Activities	
Property Taxes	1,455,774
Tax Collection Expense	(14,588)
Conservation Loan Payments Received	<u>433,570</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>1,874,756</u>
Cash Flows from Capital & Related Financing Activities	
Purchase of Capital Assets	(274,863)
Loss on the Disposition of Assets	(3,686)
Principal Paid	(482,804)
Interest Expense	<u>(7,074)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(768,427)</u>
Cash Flows from Investing Activities	
Interest Income	<u>198,302</u>
Net Cash Provided by Investing Activities	<u>198,302</u>
Net Increase (Decrease) in Cash	155,423
Cash, Beginning of Year	<u>3,078,453</u>
Cash, End of Year	<u>\$ 3,233,876</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Operating Income	(1,212,122)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	64,891
(Increase) Decrease in Property Taxes Receivable	3,019
(Increase) Decrease in Interest Receivable	5,648
(Increase) Decrease in Inventory	(1,641)
(Increase) Decrease in Prepaid Expenses	149
Increase (Decrease) in Accounts Payable	(9,423)
Increase (Decrease) in Taxes Payable	860
Increase (Decrease) in Compensated Absences	<u>(589)</u>
Net Cash Provided by Operating Activities	<u>\$ (1,149,208)</u>

The notes to the financial statements are an integral part of this statement.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pecos Valley Artesian Conservancy District ("the District") was created by Order of the District Court of Chavez County, New Mexico after the necessary action had been taken pursuant of the provisions of Article XIII of Chapter 25 of the New Mexico Statutes 1953 annotated. More specifically, the District was created to conserve, where necessary, the waters of the Roswell Artesian Basin ("the Basin"), including the lands within the Basin located in both Chaves and Eddy Counties, New Mexico.

The District is governed by five directors, each representing one of the five divisions into which the District is divided. The directors are elected to a six-year term by the registered voters of their respective division of the District and must, at the time of election, be a registered voter and resident of that division.

Annually, the Board of Directors outlines a water conservation plan and makes estimates of the cost of administration, equipment and improvements necessary to carry out the plan. Historically, the Board of Directors has felt that it was beneficial for the Basin to purchase and retire water rights. The purchased water rights are held in the District's water conservation "bank" and, under board policy are not sold, but are retired for the purpose of assisting in stabilizing water consumption in the Basin.

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations and applicable Accounting Principles Board (APB) pronouncements. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the PVACD's accounting policies are described below.

Financial Reporting Entity

The District's reporting entity is solely the proprietary fund which records revenues and expenses of the water conservation function. It is not a component unit of another entity nor does it operate any other component units.

The accounts of the District are organized on the basis of one fund and are considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. In this report, the fund is presented in the financial statement as a proprietary fund.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

Proprietary Fund:

Enterprise Fund - The Enterprise fund is used to account for all revenues. The District's revenues consist of (a) interest income and tax revenues used for conservation projects and (b) sales of water meters and miscellaneous receipts. The District operates in a manner similar to a private business enterprise - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered through user charges (meter sales and interest on conservation loans) and county taxes; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities associated with their activity are included on the balance sheet. Their reported net assets are segregated into invested capital assets, net of related debt, restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Basis of Presentation

The District is engaged in business-type activity only. The financial statements (the statement of net assets, statement of revenues, expenses and changes in net assets and the statement of cash flows) report information on all of the activities of the District.

Special Conservation Loans

The New Mexico Interstate Stream Commission (the "Commission") makes loans to the District, which, in turn makes loans to qualified borrowers. Loans from the Commission to the District provide for repayment in 20 equal annual installments with interest at 2.5%. Loans from the District to qualified borrowers provide for repayment in 10 equal annual installments with interest at 3.5 %. The District is required to maintain a separate account (the District uses Bank of America) for these funds and to repay the Commission by July 1 of each year, any excess of loan funds over \$50,000 plus June's interest income. The District, customarily, makes such payment in mid-June so that the ISC receives the payment before June 30 and maintains the \$50,000 allowed by the Commission plus June interest and any funds received from loans, which have not been finalized as of June 30. Expenses other than interest, are minimal in amount.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

The fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resource measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

The revenues susceptible to accrual are charges for services and interest income.

Budgetary Control

The District is required by state law to adopt annual budgets prepared on a cash basis. New Mexico's legal level of budgetary control is at the fund level. Budgetary and actual financial statements are presented without amendment for the year ending June 30, 2006.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District is authorized under the provisions of Chapter 6, Article 10, paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

Investments

All money not immediately necessary for the public uses of the District may be invested in :

(a) bonds or negotiable securities of the United States, the state or any county, municipality which has a taxable valuation of real property for the last preceding year of at least one million dollars (1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

(b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

(c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

Receivables and Payables

Receivables include amounts due from customers for sales and service. Payables represent routine monthly bills for services rendered and products purchased and accrued salaries and benefits.

Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets are reported in the financial statements. Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

Buildings & Improvements	20-50 Years
Meters	15 Years
Field Equipment and Vehicles	15-40 Years
Drilling Rig	40 Years
Office Furniture & Equipment	5 Years

Compensated Absences

District employees earn vacation and sick leave at the rate of ten (10) hours and eight (8) hours per month, respectively. In the event of termination, an employee is reimbursed for accumulated vacation, but is not reimbursed for accumulated sick leave. However, employees who have accrued sick leave in excess of 600 hours are entitled to sell all hours over the 600 limit back to the District at one-half the normal rate of pay. The estimated liability is \$65,904 for vacation. The estimated amount for sick leave benefits over 600 hours is not accrued as a liability since this is not payable upon employee termination.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

Revenue

Sales of meters, considered operating revenues are recorded as sold. Property taxes, considered non-operating, non-exchange revenues, are levied by Chaves and Eddy Counties on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent and Chaves and Eddy Counties may assess penalties and interest. The taxes attach as an enforceable lien on the property thirty (30) days thereafter, at which time they become delinquent. The Counties remit to the District its share of taxes collected monthly. Interest revenues, also considered non-operating, non-exchange revenues, are received on loans to ranchers and farmers for conservation projects and equipment.

Net Assets

Net Assets comprise the various earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. "Invested in capital assets" consist of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets, debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. "Restricted net assets" consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. "Unrestricted net assets" consist of all other net assets not included in the above categories.

Restricted Net Assets

For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net assets use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available it will first be applied to restricted resources.

NOTE B: CASH AND INVESTMENTS

The District is required by New Mexico State Statute (Section 6-10-17) to be 50% collateralized. Following is a schedule calculating the requirement and disclosing the pledged securities.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2006

1st National

<u>Name of Account</u>	Balance Per Bank 6/30/06	Reconciled Balance	<u>Type</u>
Pecos Valley Artesian Conservancy District	\$ 55,696	\$ 46,533	Checking
Pecos Valley Artesian Conservancy District	693,532	693,532	Savings
Pecos Valley Artesian Conservancy District	200,000	200,000	Savings
Pecos Valley Artesian Conservancy District	200,000	200,000	Savings
TOTAL Deposited	<u>1,149,228</u>	<u>1,140,065</u>	
Less: FDIC Coverage	<u>(155,696)</u>		
Uninsured Amount	993,532		
50% collateral requirement	496,766		
Pledged securities	526,925		
Over (Under) requirement	<u>\$ 30,159</u>		

The following securities are pledged at **1st National**:

<u>Description</u>	<u>Type</u>	<u>CUSIP #</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
FHLB Quarterly Call	Bond	31339YFD9	\$ 142,921	01/23/2009
MBS FHLMC GOLD	Bond	31280HBT4	72,360	12/01/2009
MBS FHLMC GOLD	Bond	31282CKC0	160,895	07/01/2018
MBS GNMA	Bond	36200M2N2	73,002	11/15/2018
MBS FNMA	Bond	31404GM57	77,747	03/01/2019
			<u>\$ 526,925</u>	

The above securities are located at FHLB Dallas, Texas.

Wells Fargo

<u>Name of Account</u>	Balance Per Bank 6/30/06	Reconciled Balance	<u>Type</u>
Pecos Valley Artesian Conservancy District	\$ 999,720	\$ 993,811	Savings
Pecos Valley Artesian Conservancy District	200,000	200,000	Savings
TOTAL Deposited	<u>1,199,720</u>	<u>\$ 1,193,811</u>	
Less: FDIC Coverage	<u>(100,000)</u>		
Uninsured Amount	1,099,720		
50% collateral requirement	549,860		
Pledged securities	699,734		
Over (Under) requirement	<u>\$ 149,874</u>		

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

The following securities are pledged at **Wells Fargo**:

<u>Description</u>	<u>Type</u>	<u>CUSIP #</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
FNCL	Bond	31385XBD8	\$ 91,538	05/01/2033
FNCL	Bond	31402DDS6	141,808	06/01/2034
FNCL	Bond	31405AYJ6	290,988	07/01/2034
G2SF	Bond	36202DUV1	112,489	10/20/2032
GNSF	Bond	36225BK49	38,130	09/15/2029
GNSF	Bond	36225BMN5	9,141	12/15/2029
GNSF	Bond	36225BN95	15,640	07/15/2031
			\$ 699,734	

The above securities are located at Wells Fargo, CA

Western Bank

<u>Name of Account</u>	<u>Balance Per Bank 6/30/06</u>	<u>Reconciled Balance</u>	<u>Type</u>
Pecos Valley Artesian Conservancy District	\$ 200,000	\$ 200,000	Savings
TOTAL Deposited	200,000	200,000	
Less: FDIC Coverage	(100,000)		
Uninsured Amount	100,000		
50% collateral requirement	50,000		
Pledged securities	50,000		
Over (Under) requirement	\$ 0		

The following securities are pledged at **Western Bank**:

<u>Description</u>	<u>Type</u>	<u>CUSIP #</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
University of NM Gallup	Bond	914684BX2	\$ 50,000	8/1/2010
			\$ 50,000	

The above securities are located at FHLB Dallas, Texas.

Valley Bank of Commerce

<u>Name of Account</u>	<u>Balance Per Bank 6/30/06</u>	<u>Reconciled Balance</u>	<u>Type</u>
Pecos Valley Artesian Conservancy District	\$ 500,000	\$ 500,000	Savings
Pecos Valley Artesian Conservancy District	100,000	100,000	Savings
TOTAL Deposited	600,000	600,000	
Less: FDIC Coverage	(100,000)		
Uninsured Amount	500,000		
50% collateral requirement	250,000		
Pledged securities	710,763		
Over (Under) requirement	\$ 460,763		

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

The following securities are pledged at **Valley Bank of Commerce**:

<u>Description</u>	<u>Type</u>	<u>CUSIP #</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
FFCB NONCALL FR	Bond	31331TXC0	\$ 484,688	03/12/2007
FHLMC GOLD	Bond	31282U2J5	226,075	01/01/2008
			<u>\$ 710,763</u>	

The above securities are located at The Independent Bankers bank Dallas, TX.

Roswell National

<u>Name of Account</u>	<u>Balance Per Bank 6/30/06</u>	<u>Reconciled Balance</u>	<u>Type</u>
Pecos Valley Artesian Conservancy District	\$ 100,000	\$ 100,000	Savings
TOTAL Deposited	100,000	<u>100,000</u>	
Less: FDIC Coverage	<u>(100,000)</u>		
Uninsured Amount	0		
50% collateral requirement	0		
Pledged securities	0		
Over (Under) requirement	<u>\$ 0</u>		

Custodial Credit Risk-Deposits

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 600,000
Collateralized:	
Collateral held by the pledging bank in District's name	1,987,422
Uninsured and uncollateralized	661,526
Total Deposits	<u>\$ 3,248,948</u>

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2006 none of the District's bank balance of \$3,248,948 was exposed to custodial credit risk.

NOTE C: ACCOUNTS RECEIVABLE

Receivables as of June 30, 2006, were as follows:

<u>Receivables</u>	<u>Total</u>
Taxes	94,713
Interest	67,868
	<u>\$ 162,581</u>

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2006

NOTE D: CONSERVATION LOANS RECEIVABLE

Loans made to approved applicants are payable annually over a ten year period. Interest at the rate of 3.5% per annum is payable with each installment. Changes in loan balances were as follows:

	Balance 7/1/2005	Additions	Payments	Balance 6/30/2006
Conservancy Loans	\$ <u>3,941,023</u>	\$ <u>433,844</u>	\$ <u>862,087</u>	\$ <u>3,512,780</u>

NOTE E: CAPITAL ASSETS

Capital Assets Balances and Activity for the Year Ended June 30, 2006, is as follows:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Business-type Activity				
Capital Assets not being Depreciated				
Land	\$ 61,405	\$ 0	\$ 0	\$ 61,405
Other Capital Assets				
Buildings	278,054	0	0	278,054
Meters	350,967	111,372	0	462,339
Field Equipment	12,102	2,100	0	14,202
Office Furniture & Equipment	17,737	73,574	0	91,311
Vehicles & Drilling Rig	<u>176,506</u>	<u>86,176</u>	<u>21,827</u>	<u>240,855</u>
Total Capital Assets at Historical Cost	\$ <u>896,771</u>	\$ <u>273,222</u>	\$ <u>21,827</u>	\$ <u>1,148,166</u>
Accumulated Depreciation				
Buildings	51,169	6,189	0	57,358
Meters	70,193	30,822	0	101,015
Field Equipment	9,909	532	0	10,441
Office Furniture & Equipment	15,037	15,705	0	30,742
Vehicles & Drilling Rig	<u>119,865</u>	<u>11,643</u>	<u>18,141</u>	<u>113,367</u>
Total Accumulated Depreciation	\$ <u>266,173</u>	\$ <u>64,891</u>	\$ <u>18,141</u>	\$ <u>312,923</u>
Total Governmental Activities				
Capital Assets, net	\$ <u>630,598</u>	\$ <u>208,331</u>	\$ <u>3,686</u>	\$ <u>835,243</u>

Beginning Capital Assets were restated by \$280,774. See Note M.

NOTE F: COMPENSATED ABSENCES

	Balance 6/30/05	Additions	Reductions	Balance 6/30/06
Other Liabilities				
Compensated Absences	<u>66,493</u>	<u>17,532</u>	<u>18,121</u>	<u>65,904</u>
Total Other Liabilities	\$ <u>66,493</u>	\$ <u>17,532</u>	\$ <u>18,121</u>	\$ <u>65,904</u>

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE G: PREPAID EXPENSE

Prepaid balances are for payments made by the District in the current year to provide services that are applicable to future accounting periods.

NOTE H: RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and GAAP (Generally Accepted Accounting Principles) basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budget basis for the governmental funds are as follows:

Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses:

Revenues over Expenditures Budgetary Comparison Statements-Budgetary Basis	\$ <u>(272,820)</u>
Adjustments:	
Depreciation	(64,891)
Debt Service	482,804
Capital Purchases	274,863
Loss on the Disposition of Assets	(3,686)
Increase(decrease) in:	
Property Taxes Receivable	(3,098)
Interest Receivable	(5,648)
Inventory	(1,641)
Prepaid Expenses	(149)
(Increase)decrease in:	
Accounts Payable	9,423
Gross Receipts Tax Payable	860
Compensated Absences	589
	<u>689,426</u>
Net Change in Net Assets	<u>\$ 416,606</u>

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE I: PERA PENSION PLAN

Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association ("PERA") is the administrator of the plan, which is a cost sharing multiple employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Plan members are required to contribute 13.15 percent of their gross salary. The District has elected to be responsible for making contributions of seventy-five percent of its employee's member contributions to PERA plus 9.15% as required by State Statute. The contribution requirements of plan members and the District are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contribution to PERA for the years ending June 30, 2006, 2005, 2004 were \$53,648, \$51,217, and \$44,526 respectively, equal to the amount of the required contributions for each year.

NOTE J: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets. To insure protection against these risks, the District purchases commercial coverage for Workers Compensation, hazard, liability and health insurance. Deductibles range from \$100 to \$500 per claim. Insurance is reviewed on an annual basis to determine that the coverage is adequate. Each employee has the option to be covered by the health insurance with 100% of the individual premium paid by the district.

NOTE K: SURETY BONDS

The Directors and certain employees of the District are covered by a surety bond as required by Section 12 6-7, NMSA, 1978 Compliance and State Auditor's Rule 89-1.

NOTE L: RELATED PARTY TRANSACTIONS

Directors on the Board of the District are recipients of water sales and services. These transactions are correctly considered arm's-length transactions since these related parties are subject to the same installation, invoicing, payment expectations, and late payment procedures as all the District customers.

NOTE M: RESTATEMENT

The installed meters belong to the District and have not been included in the capital assets. Capital assets were increased by \$350,967 and accumulated depreciation was increased by \$70,193 for a net adjustment to net assets of \$280,774

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Property Taxes	\$ 1,271,200	\$ 1,271,200	\$ 1,458,795	\$ 187,595
Sales & Service	18,500	18,500	93,831	75,331
Interest Income	159,500	159,500	203,950	44,450
Gross Profit	<u>1,449,200</u>	<u>1,449,200</u>	<u>1,756,576</u>	<u>307,376</u>
Expenditures				
Salaries	300,000	300,000	246,285	53,715
Employee Benefits	183,400	183,400	177,142	6,258
Legal Fees	524,800	524,800	397,339	127,461
Services	20,000	20,000	21,961	(1,961)
Utilities	10,000	10,000	6,102	3,898
Insurance	31,500	31,500	31,216	284
Office	8,000	8,000	4,994	3,006
Supplies	10,000	10,000	9,967	33
Maintenance	10,000	10,000	3,427	6,573
Meter Supplies	30,000	30,000	48,666	(18,666)
Capital Outlay	175,000	175,000	274,863	(99,863)
Directors Per Diem	20,000	20,000	14,203	5,797
Basis Water Master	300,000	300,000	234,727	65,273
Tax Collection Expenses	13,000	13,000	14,588	(1,588)
Plugging Expenses	12,000	12,000	6,806	5,194
Observation Well	500	500	0	500
Bank Charges	0	0	172	(172)
Co-op and Joint Powers Agreements	50,000	50,000	47,060	2,940
Principal Payment	695,000	695,000	482,804	212,196
Interest Expense	55,000	55,000	7,074	47,926
Total Expenditures	<u>2,448,200</u>	<u>2,448,200</u>	<u>2,029,396</u>	<u>418,804</u>
Excess (Deficiency) of Revenues Over Expenditures	(999,000)	(999,000)	(272,820)	726,180
Other Items				
Principal collected for the Conservation Loans			428,243	
Cash Balance Beginning of Year	<u>3,078,453</u>	<u>3,078,453</u>	<u>3,078,453</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 2,079,453</u>	<u>\$ 2,079,453</u>	<u>\$ 3,233,876</u>	<u>\$ 726,180</u>

The notes to the financial statements are an integral part of this statement.



De'Aun Willoughby CPA, PC

Certified Public Accountant

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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards***

Mr. Hector Balderas

State Auditor of the State of New Mexico

Board Members of the PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Mr. Balderas and Members of the Board

We have audited the basic financial statements of the business-type activities of the Pecos Valley Artesian Conservancy District (District) as of and for the year ended June 30, 2006 and have issued our report thereon dated August 29, 2008. We have also audited the budget comparisons presented as supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency 06-01 described in the accompanying schedule of findings and recommendations to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. material weakness.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and that, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards and which is described in the accompanying schedule of findings and recommendations as item 06-01*.

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

This report is intended solely for the information and use of the administration, the board members, the Office of the State Auditor, the New Mexico State Legislature and its committees, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

De'Ann Willoughby, CPA PC

August 29, 2008

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Findings and Comments
June 30, 2006

Prior Year Audit Findings

	<u>Status</u>
05-01 - Inventory - Meters	Resolved
05-02 - Payroll deductions	Resolved
05-03 - Due Date of Audit	Repeated

Current Year Audit Findings

05-03 Late Audit Report - Compliance

Condition

The audit report was filed after the due date. The report was submitted on 8/30/08 to the State Auditor's Office.

Criteria

According to the State Auditor Rule 2.2.2.9 (d), the audit report due date for the District is December 15.

Cause

The District did not contract with the auditor until after the due date of the audit report.

Effect

The users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit report could have an effect on state and federal funding.

Recommendation

The District should make every effort to hire an auditor and complete their audit timely.

Response

We will make an effort to solicit an auditor and complete our audit timely.

06-01 Procurement

Condition

The District paid \$78,373.12 for computer services without following the procurement code.

Criteria

"All procurement shall be achieved by competitive sealed bid pursuant to Sections 13-1-103 through 13-1-110 NMSA 1978." Section 13-1-102, NMSA 1978. "The award shall be made to the responsible offeror or offerors whose proposal is most advantageous to the local public body or legislative agency respectively, taking into consideration the evaluation factors set forth in the request for proposals." Section 13-1-117.1, NMSA 1978.

Cause

The District wanted to update their DOS based computer system. They hired an individual to write a new program using Microsoft Access. They did not research the market for software as they assumed because they were an unique District that the software was unavailable. They also didn't follow procurement procedures for a professional contract.

Effect

The District paid for and received services without knowing if they were paying more than they should for the service.

Recommendation

The District should always follow the procurement code to ensure the best use of public funds.

Response

We will ensure we follow the procurement process in the future.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby CPA. However, they are the responsibility of management.

Exit Conference

An exit conference was held on September 9, 2008 present was Brent Bullock-Superintendent, Bill Netherlin-Chairman, Dwight Menefee-Member, Patty Barresi-Clerk and De'Aun Willoughby, CPA.