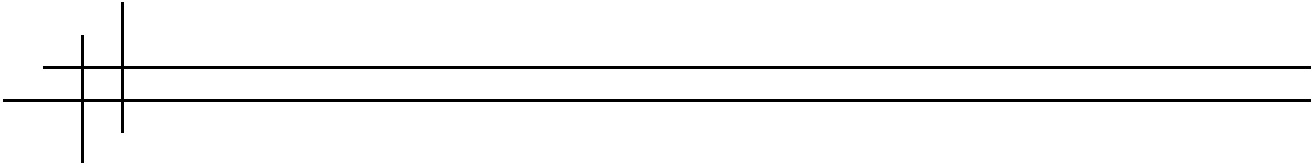




PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
ROSWELL, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2011

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



PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

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PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Official Roster

June 30, 2011

BOARD OF DIRECTORS

Bill Netherlin	Chairman
Greg Alpers	Vice-Chairman
Ben Kerr	Secretary/Treasurer
Dwight Menefee	Assistant Secretary/Treasurer
Richard Smith	Member

ADMINISTRATIVE STAFF

Patty Barresi	Secretary
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De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(575) 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 financial statements of the business-type activities of the Pecos Valley Artesian Conservancy District (District), as of and for the year ended June 30, 2011, as listed in the table of contents. We have also audited the budget comparison presented as supplementary information in the 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 opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2011, and the respective 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, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the District for the year ended June 30, 2011 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 November 17, 2011 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 *Government 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

November 17, 2011

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Net Assets Proprietary Funds

June 30, 2011

ASSETS

Current Assets

Cash in Banks	\$	5,902,401
Investments		1,000,000
Property Taxes Receivable		36,116
Interest Receivable		37,913
Inventory		64,021
Prepaid Expenses		18,714
Total Current Assets		<u>7,059,165</u>

Non-current Assets

Capital Assets

Land		61,405
Buildings & Improvements		307,099
Meters		721,226
Vehicles & Equipment		741,970
Less Accumulated Depreciation		<u>(892,581)</u>
Total Capital Assets		939,119
Conservation Loans Receivables		2,014,150
Water Rights		<u>3,959,628</u>
Total Non-current Assets		<u>6,912,897</u>

Total Assets 13,972,062

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable		56,916
Compensated Absences		19,890
Total Current Liabilities		<u>76,806</u>

Net Assets

Total Net Assets \$ 13,895,256

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 Proprietary Funds

June 30, 2011

Operating Revenues	
Meter Sales and Other Operating Revenues	\$ <u>42,901</u>
Operating Expenses	
Salaries	262,630
Employee Benefits	239,918
Legal & Professional Fees	299,329
Services	20,339
Utilities	12,553
Insurance and Bonds	31,490
Office	9,206
Supplies	6,790
Maintenance	25,053
Meter Supplies	33,061
Travel	37,764
Training, Meeting & Conferences	9,911
Water Master	334,990
Plugging Expenses	38,468
Government Affairs	15,000
Audit Fees	5,880
Fuel	12,445
Miscellaneous	164
Depreciation	126,402
Public Relations	4,573
Co-op and Joint Powers Agreements	34,059
Total Expenses	<u>1,560,025</u>
Operating Income (Loss)	<u>(1,517,124)</u>
Nonoperating Revenues (Expenses)	
Property Taxes	2,216,486
Tax Collection Expenses	(22,838)
Interest Income	119,740
	<u>2,313,388</u>
Change in Net Assets	796,264
Net Assets at Beginning of Year	<u>13,098,992</u>
Net Assets at End of Year	<u>\$ <u>13,895,256</u></u>

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

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Cash Flows Proprietary Funds

June 30, 2011

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 42,901
Payments to Employees and Suppliers	(1,450,192)
Net Cash Provided by Operating Activities	<u>(1,407,291)</u>
Cash Flows from Non-capital Financing Activities	
Property Taxes	2,216,486
Tax Collection Expense	(22,838)
Net Principal collected for the Conservation Loans	<u>298,599</u>
Net Cash Provided (Used) Non-capital Financing Activities	<u>2,492,247</u>
Cash Flows from Capital & Related Financing Activities	
Purchase of Capital Assets	<u>(138,171)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(138,171)</u>
Cash Flows from Investing Activities	
Interest Income	<u>119,740</u>
Net Cash Provided by Investing Activities	<u>119,740</u>
Net Increase (Decrease) in Cash	1,066,525
Cash, Beginning of Year	<u>5,835,876</u>
Cash, End of Year	<u>\$ 6,902,401</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Operating Income	\$ (1,517,124)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	126,402
(Increase) Decrease in Property Taxes Receivable	(4,504)
(Increase) Decrease in Interest Receivable	2,980
(Increase) Decrease in Inventory	(8,308)
(Increase) Decrease in Prepaid Expenses	8,597
Increase (Decrease) in Accounts Payable	(10,175)
Increase (Decrease) in Compensated Absences	(5,159)
Net Cash Provided by Operating Activities	<u>\$ (1,407,291)</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, 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pecos Valley Artesian Conservancy District (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 District has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected District members are financially accountable. There are no other primary governments with which the District Board Members are financially accountable. There are no other primary governments with which the District has a significant relationship.

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.

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.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2011

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.

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.

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, 2011.

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, 2011

(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
Field Equipment	15-40 Years
Drilling Rig	80 Years
Equipment & Vehicles	3-15 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 \$19,889 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.

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.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2011

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" consists 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: DEPOSITS 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.

1st American

<u>Name of Account</u>	<u>Bank Balance 6/30/11</u>	<u>Reconciled Balance</u>	<u>Type</u>
Pecos Valley Artesian Conservancy District	\$ 29,749	\$ 8,044	Checking
Pecos Valley Artesian Conservancy District	2,302,335	2,302,335	Checking
Pecos Valley Artesian Conservancy District	1,000	1,000	Checking
Pecos Valley Artesian Conservancy District	1,020,996	1,020,996	Savings
Pecos Valley Artesian Conservancy District	<u>1,538,742</u>	<u>1,538,742</u>	Savings
TOTAL Deposited	4,892,822	<u>\$ 4,871,117</u>	
Less: FDIC Coverage	<u>(250,000)</u>		
Uninsured Amount	4,642,822		
50% collateral requirement	2,321,411		
Pledged securities	<u>2,364,136</u>		
Over (Under) requirement	<u>\$ 42,725</u>		

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2011

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

<u>Description</u>	<u>CUSIP #</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
Dulce NM USD #21	264430KA6	\$ 135,047	09/01/17
Gallup McKinley NM SD	364010NR5	192,756	08/01/16
FHLB 1time CALL	3133XGSE5	202,110	09/08/16
MBS GNMA 1 15-yr SF	36200M2N2	27,532	11/15/18
Belen NM Cons Sch	077581MQ6	186,646	08/01/20
Taos NM Municipal SD	876014FF3	425,849	09/01/20
Alamogordo, NM	011446FX4	255,028	08/01/24
San Juan CNTY NM CENT	798359HT5	939,168	08/01/21
		<u>\$ 2,364,136</u>	

The above securities are located at FHLB Dallas, Texas.

Washington Federal Savings Bank

<u>Name of Account</u>	<u>Bank Balance 6/30/11</u>	<u>Reconciled Balance</u>	<u>Type</u>
Pecos Valley Artesian Conservancy District	\$ 1,031,284	\$ 1,031,284	Checking
Pecos Valley Artesian Conservancy District	* 500,000	500,000	Savings
Pecos Valley Artesian Conservancy District	* 500,000	500,000	Savings
TOTAL Deposited	<u>2,031,284</u>	<u>\$ 2,031,284</u>	
Less: FDIC Coverage	<u>(250,000)</u>		
Uninsured Amount	1,781,284		
50% collateral requirement	890,642		
Pledged securities	1,961,332		
Over (Under) requirement	<u>\$ 1,070,690</u>		

* The Certificate of Deposits mature in a year are shown on the Statement of Net Assets as investments.

The following securities are pledged at Washington Federal Savings Bank:

<u>Description</u>	<u>CUSIP #</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
FHLB	313370L63	\$ 1,961,332	8/26/2025
		<u>\$ 1,961,332</u>	

The above securities are located at FHLB Dallas, Texas.

Custodial Credit Risk-Deposits

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 500,000
Collateralized:	
Collateral held by the pledging bank in District's name	4,325,468
Uninsured and uncollateralized	2,098,638
Total Deposits	<u>\$ 6,924,106</u>

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2011

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, 2011 \$2,098,638 of the District's bank balance of \$6,924,106 was exposed to custodial credit risk.

NOTE C: ACCOUNTS RECEIVABLE

Receivables as of June 30, 2011, were as follows:

<u>Receivables</u>	<u>Total</u>
Property Taxes	\$ 36,116
Interest	37,913
	<u>\$ 74,029</u>

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:

	Beginning Balance 6/30/10	Additions	Payments	Ending Balance 6/30/11
Conservancy Loans	\$ <u>2,312,749</u>	\$ <u>310,590</u>	\$ <u>609,189</u>	\$ <u>2,014,150</u>

NOTE E: CAPITAL ASSETS

Capital Assets Balances and Activity for the Fiscal year, is as follows:

	Beginning Balance 6/30/10	Additions	Deletions	Ending Balance 6/30/11
Business-type Activity				
Capital Assets not being Depreciated				
Land	\$ 61,405	\$ 0	\$ 0	\$ 61,405
Other Capital Assets				
Buildings	307,099	0	0	307,099
Meters	626,923	94,302	0	721,225
Field Equipment	60,301	43,869	0	104,170
Office Furniture & Equipment	305,740	0	0	305,740
Vehicles & Drilling Rig	332,061	0	0	332,061
Total Capital Assets at Historical Cost	<u>1,693,529</u>	<u>138,171</u>	<u>0</u>	<u>1,831,700</u>
Accumulated Depreciation				
Buildings	86,471	7,641	0	94,112
Meters	254,562	48,082	0	302,644
Field Equipment	21,787	6,373	0	28,160
Office Furniture & Equipment	229,034	43,543	0	272,577
Vehicles & Drilling Rig	174,325	20,763	0	195,088
Total Accumulated Depreciation	<u>766,179</u>	<u>126,402</u>	<u>0</u>	<u>892,581</u>
Total Business-type Activities				
Capital Assets, net	<u>\$ 927,350</u>	<u>\$ 11,769</u>	<u>\$ 0</u>	<u>\$ 939,119</u>

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2011

NOTE F: COMPENSATED ABSENCES

	Beginning Balance 6/30/10	Additions	Reductions	Ending Balance 6/30/11
Other Liabilities				
Compensated Absences	\$ 25,048	\$ 15,552	\$ 20,710	\$ 19,890
Total Other Liabilities	<u>\$ 25,048</u>	<u>\$ 15,552</u>	<u>\$ 20,710</u>	<u>\$ 19,890</u>

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 on the Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget and Actual (Budgetary Basis).

NOTE I: PERA PENSION 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, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 7% of the gross salary. The District is required to contribute 7% for all employee's gross covered salary. The contribution requirements of plan members and the District are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the fiscal years ending June 30, 2011, 2010 and 2009 were \$59,742, \$61,312, and \$58,800, respectively, which equal the amount of the required contributions for each fiscal year.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2011

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.

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, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Property Taxes	\$ 2,012,756	\$ 2,012,756	\$ 2,211,983	\$ 199,227
Sales & Service	8,000	8,000	42,901	34,901
Interest Income	185,000	185,000	122,719	(62,281)
Total Revenue	<u>2,205,756</u>	<u>2,205,756</u>	<u>2,377,603</u>	<u>171,847</u>
Expenditures				
Salaries	379,400	379,400	267,789	111,611
Employee Benefits	239,005	239,005	240,557	(1,552)
Legal Fees	600,000	600,000	303,723	296,277
Services	75,000	75,000	19,784	55,216
Utilities	20,000	20,000	12,583	7,417
Insurance	70,000	70,000	22,893	47,107
Office	30,000	30,000	9,409	20,591
Supplies	35,000	35,000	3,170	31,830
Maintenance	125,000	125,000	32,286	92,714
Meter Supplies	250,000	250,000	158,323	91,677
Capital Outlay	200,000	200,000	47,351	152,649
Travel	75,000	75,000	38,344	36,656
Continuing Education	50,000	50,000	10,664	39,336
Basis Water Master	398,000	398,000	334,990	63,010
Tax Collection Expenses	22,000	22,000	22,838	(838)
Plugging Expenses	105,000	105,000	20,388	84,612
Government Affairs	25,000	25,000	15,000	10,000
Audit	6,000	6,000	5,879	121
Fuel	35,097	35,097	12,463	22,634
Bank Charges	1,500	1,500	38	1,462
Miscellaneous	1,500	1,500	125	1,375
Public Relations	10,000	10,000	4,573	5,427
Co-op and Joint Powers Agreements	75,000	75,000	26,507	48,493
Total Expenditures	<u>2,827,502</u>	<u>2,827,502</u>	<u>1,609,677</u>	<u>1,217,825</u>
Excess (Deficiency) of Revenues Over Expenditures	(621,746)	(621,746)	767,926	1,389,672
Other Items				
Net Principal collected for the Conservation Loans	<u>0</u>	<u>0</u>	<u>298,599</u>	<u>298,599</u>
Net Change in Cash Balance	(621,746)	(621,746)	1,066,525	1,688,271
Cash Balance Beginning of Year	<u>5,835,876</u>	<u>5,835,876</u>	<u>5,835,876</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 5,214,130</u>	<u>\$ 5,214,130</u>	<u>\$ 6,902,401</u>	<u>\$ 1,688,271</u>

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, 2011

Reconciliation of Budgetary Basis to GAAP Basis

Net Change in Cash Balance	\$	767,926
Capital Outlay		138,171
Depreciation		(126,402)
Net Change in Taxes Receivable		4,504
Net Change in Interest Receivables		(2,980)
Net Change in Inventory		8,308
Net Change in Prepaid Expenses		(8,597)
Net Change in Accounts Payable		10,175
Net Change in Compensated Absences		5,159
Change in Net Assets-GAAP Basis	\$	<u>796,264</u>

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



De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(575) 253-4313

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 financial statements of the business-type activities and the related budgetary comparison presented as supplemental information of the Pecos Valley Artesian Conservancy District (District), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 17, 2011. 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and correct on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting; 11-1. 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 City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs; 11-1.

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

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

De'Ann Willoughby CPA PC

November 17, 2011

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Findings and Responses

June 30, 2011

Prior Year Audit Findings

	<u>Status</u>
09-01 Preparation of Financial Statements	Resolved

Current Year Audit Findings

11-1 Personnel Policy-Compliance and Internal Control-Significant Deficiency

Condition

The personnel policy regarding compensated absences and medical insurance do not agree with the benefits provided to the employees.

Criteria

Good accounting controls and best practices requires that the entity follows the board approve policy.

Cause

The personnel policy is subject to interpretation and treats employees hired more recently differently than those hired years ago. The policy does not state the employees are to be treated differently. It is assumed rather than documented.

Effect

The District may be liable for additional benefits based on the personnel policy. if selected employees pursue the fact that they are not accruing vacation pay in in the same manner as other employees. The policy is subject to interpretation and is unclear.

Recommendation

We recommend that the employees who participate in the accounting function obtain training in governmental accounting and the preparation of financial statements.

Response

The personnel policy will be rewritten and address vacation and medical insurance.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby CPA.

Exit Conference

An exit conference was held on November 17, 2011 present were Richard Smith-Board Member, Dwight Menefee-Board-Assistant Secretary and Patty Barresi-Secretary and De'Aun Willoughby, CPA.