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STATE OF NEW MEXICO  
Pecos Valley Artesian Conservancy District  
June 30, 2012

Financial Statements and Supplementary Information  
As Of And For The Year Ended June 30, 2012  
With Independent Auditor's Report Thereon

*Sandra Rush*  
*Certified Public Accountant, PC*

*1101 E Llano Estacado*  
*Clovis, New Mexico 88101*

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## Introductory Section

STATE OF NEW MEXICO  
PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Official Roster  
For the year ended December 31, 2012

Board of Directors

Bill Netherlin	Chairman
Greg Alpers	Vice-Chairman
Richard Smith	Secretary / Treasurer
Dwight Menefee	Director
Mike Fallwell	Director

Administrative Officials

Aron Balok	Superintendent
Patty Barresi	Secretary

STATE OF NEW MEXICO  
PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

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For the year ended December 31, 2012

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## **Financial Section**

# *Sandra Rush*

*Certified Public Accountant PC*

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1101 E Llano Estacado • Clovis, New Mexico 88101 • 575-763-2245

## Independent Auditor's Report

Mr. Hector H. 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

I 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, 2012, as listed in the table of contents. I 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my 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, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in my 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, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 27, 2012 on my consideration of the District's internal control over financial reporting and on my 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 my 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 my audit.

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB 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. My opinion on the basic financial statements is not affected by this missing information.

My audit was conducted for the purpose of forming opinions on the basic financial statements, the individual fund financial statement, and the budgetary comparison. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole

*Sandra Rush CPA*

Sandra Rush, CPA PC

November 27, 2012

## **Basic Financial Statements**



**Proprietary Fund Financial Statements**

STATE OF NEW MEXICO  
 PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Net Assets Proprietary Funds  
 June 30, 2012

ASSETS

Current assets:

Cash	\$ 6,458,269
Investments	1,000,000
Receivables:	
Property taxes	58,385
Interest	35,729
Inventory	51,828
Prepaid expenses	25,551
	<hr/>
Total current assets	7,629,762

Non-current assets:

Capital assets:

Land	61,405
Construction in progress	48,695
Buildings and improvements	334,290
Meters	840,748
Vehicles and equipment	695,737
Less accumulated depreciation	(981,437)
	<hr/>
Total capital assets	999,438

Conservation loans receivable	2,349,852
Water rights	3,959,628
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Total non-current assets	7,308,918
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Total assets	<u>\$ 14,938,680</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities:

Accounts payable	\$ 34,995
Payroll liabilities	832
Compensated absences	26,405
Gross receipts tax payable	92
	<hr/>

Total current liabilities	62,324
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NET ASSETS

Invested in capital assets	14,824,528
Nonspendable	51,828
Unrestricted	-
	<hr/>

Total net assets	14,876,356
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Total liabilities and net assets	<u>\$ 14,938,680</u>
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See notes to financial statements

STATE OF NEW MEXICO  
 PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets  
 Proprietary Fund  
 June 30, 2012

Operating revenues	
Meter sales and other operating revenues	\$ <u>41,967</u>
Operating expenses	
Current	
Salaries	288,733
Employee benefits	243,029
Legal and professional fees	227,489
Services	21,570
Utilities	12,897
Insurance and bonds	37,026
Office	6,016
Supplies	6,831
Maintenance	46,311
Meter supplies	-
Travel	67,302
Training, meeting and conferences	22,648
Water master	281,416
tax collection costs	-
Plugging	60,932
Government affairs	24,600
Audit fees	5,879
Fuel	14,935
Miscellaneous	89
Capital outlay	4,862
Depreciation	119,573
Public relations	4,985
Co-op and Joint powers agreements	<u>2,835</u>
Total expenditures	<u>1,499,958</u>
Excess (deficiency) of revenues over expenditures	(1,457,991)
Nonoperating revenues (expenses)	
Property taxes	2,324,706
Tax collection expenses	(23,265)
Reimbursed plugging costs	35,000
Net new loans and principal paid	-
Interest income	<u>111,753</u>
Total nonoperating revenues (expenses)	<u>2,448,194</u>
Change in net assets	990,203
Net assets, beginning	13,895,256
Prior period adjustment	<u>(9,103)</u>
Net assets, beginning restated	<u>13,886,153</u>
Net assets, ending	<u>\$ <u>14,876,356</u></u>

See notes to financial statements

STATE OF NEW MEXICO  
 PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Cash Flows Proprietary Funds  
 June 30, 2012

Cash flows from operating activities	
Receipts from customers and users	\$ 41,967
Payments to employees and suppliers	<u>(1,390,436)</u>
Net cash provided by operating activities	<u>(1,348,469)</u>
Cash flows from non-capital financing activities	
Property taxes	2,302,437
Tax collection expense	(23,265)
Reimbursed plugging costs	35,000
Net principal loaned and collected for the conservation loans	<u>(335,702)</u>
Net cash provided (used) non-capital financing activities	<u>1,978,470</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(188,042)</u>
Net cash provided (used) by capital and related financing activities	<u>(188,042)</u>
Cash flows from investing activities	
Interest income	<u>113,938</u>
Net cash provided by investing activities	<u>113,938</u>
Net increase (decrease) in cash	555,897
Cash, beginning of year	<u>6,902,401</u>
Cash, end of year	<u>\$ 7,458,298</u>
Reconciliation of net income to net cash provided by	
Operating activities	
Operating income	\$ (1,457,991)
Adjustments to reconcile net income to net cash	
Provided by operating activities	
Depreciation	119,573
(Increase) decrease in property taxes receivable	
(Increase) decrease in interest receivable	
(Increase) decrease in inventory	12,193
(Increase) decrease in prepaid expenses	(6,839)
Increase (decrease) in accounts payable	(21,920)
capital outlay	
Increase (decrease) in compensated absences	<u>6,515</u>
Net cash provided by operating activities	<u>\$ (1,348,469)</u>

**Note 1. 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 the District'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 (c) 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.

#### 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, 2012.

#### *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.

(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.

*Receivable 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 include 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 is 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:

Building and Improvements	20-50
Field Equipment	15-40
Drilling Rig	80
Equipment and Vehicles	3-15

*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 \$26,405 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 10<sup>th</sup> and April 10<sup>th</sup>. Property taxes uncollected after November 10<sup>th</sup> and April 10<sup>th</sup> 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; restricted; and unrestricted net assets. "Invested in capital assets" consisted 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 2. 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 Roswell, NM	Washington Federal Savings Bank Roswell, NM	Type
Total amount on deposit on June 30, 2012			
Pecos Valley artesian Conservancy District	\$ 3,095,888	\$ -	Checking
Pecos Valley artesian Conservancy District	1,026,204	-	Checking
Pecos Valley artesian Conservancy District	14,211	-	Checking
Pecos Valley artesian Conservancy District	1,000	-	Checking
Pecos Valley artesian Conservancy District	1,290,099	-	Checking
Pecos Valley artesian Conservancy District	-	1,034,613	Checking
Pecos Valley artesian Conservancy District	-	500,000	Savings
Pecos Valley artesian Conservancy District	-	500,000	Savings
Total deposited	<u>5,427,402</u>	<u>2,034,613</u>	
Less FDIC coverage	<u>(250,000)</u>	<u>(250,000)</u>	
Total uninsured public funds	<u>5,177,402</u>	<u>1,784,613</u>	
50% collateral requirement			
as per Section 6-10-17, NMSA 1978	<u>2,588,701</u>	<u>892,307</u>	
Pledged securities			
Fed Natl Mtg Assn Pool	<u>2,710,815</u>	<u>1,572,651</u>	
Over (under)	<u>\$ 122,114</u>	<u>\$ 680,345</u>	

1st American Bank		Market	Maturity	
Description	CUSIP #	Value	Date	Location
Gallup McKinley NM ISD	364010NR5	\$ 194,383	08/01/16	FHLB, Dallas TX
Dulce NM ISD	264430KH1	306,726	09/01/16	FHLB, Dallas TX
FNMA	3136FTEK1	101,249	10/28/16	FHLB, Dallas TX
Dulce NM ISD	264430KA6	133,368	09/01/17	FHLB, Dallas TX
Dulce NM ISD	264430KK4	65,608	09/01/18	FHLB, Dallas TX
MSB GNMA 15 Yr	36200M2N2	21,329	11/15/18	FHLB, Dallas TX
Belen NM Cons Sch Dist	077581MQ6	192,596	08/01/20	FHLB, Dallas TX
Taos NM Muni Sch Dist	876014FF3	442,868	09/01/20	FHLB, Dallas TX
San Juan Cnty NM	798359HT5	973,503	08/01/21	FHLB, Dallas TX
Alamogordo NM	010446FX4	279,185	08/01/24	FHLB, Dallas TX
		<u>\$ 2,710,815</u>		
Washington Federal Bank				
FHLMC Gold PC	312942XR1	<u>\$ 1,572,651</u>	10/01/40	FHLB, Seattle WA

Custodial 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.

1st American Bank Depository Account	Bank Balance
Insured	\$ 250,000
Collateralized:	
Collateral held by the pledging bank not in the Districts name	2,710,815
Over insured and over collateralized	<u>2,466,587</u>
Total Deposits	<u>\$ 5,427,402</u>

Washington Federal Savings Bank Depository Account	Bank Balance
Insured	\$ 250,000
Collateralized:	
Collateral held by the pledging bank not in the Districts name	1,572,651
Over insured and over collateralized	<u>211,962</u>
Total Deposits	<u>\$ 2,034,613</u>

**Note 3. Accounts Receivable**

Receivables as of June 30, 2012, were as follows:

Property Taxes	\$ 58,385
Interest	<u>35,729</u>
	<u>\$ 94,114</u>

**Note 4. 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 7/1/11	\$ 2,014,150
Additions	870,387
Payments	<u>(534,685)</u>
Totals	<u>\$ 2,349,852</u>

**Note 5. Capital Assets**

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

	Beginning Balances	Increase	Adjustments/ Decrease	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 61,405	\$ -	\$ -	\$ 61,405
Construction in progress	-	48,695	-	48,695
Capital assets being depreciated				
Buildings	\$ 307,099	27,191	-	\$ 334,290
Meters	721,225	119,523	-	840,748
Field equipment	104,170	-	(7,368)	96,802
Office furniture & fixtures	305,740	-	(4,500)	301,240
Vehicles & drilling rig	332,061	-	(34,366)	297,695
-	-	-	-	-
Total assets being depreciated	<u>1,831,700</u>	<u>195,409</u>	<u>(46,234)</u>	<u>1,980,875</u>
Less accumulated depreciation				
Buildings	(94,112)	(9,001)	-	(103,113)
Meters	(302,644)	(56,050)	-	(358,694)
Field equipment	(28,160)	(5,647)	491	(33,316)
Office furniture & fixtures	(272,577)	(28,777)	4,500	(296,854)
Vehicles & drilling rig	(195,088)	(20,098)	25,726	(189,460)
Total accumulated depreciation	<u>(892,581)</u>	<u>(119,573)</u>	<u>30,717</u>	<u>(981,437)</u>
Governmental activity capital assets, net	<u>\$ 939,119</u>	<u>\$ 75,836</u>	<u>\$ (15,517)</u>	<u>\$ 999,438</u>

**Note 6. Compensated Absences**

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	<u>\$ 19,890</u>	<u>\$ 18,062</u>	<u>\$ (11,547)</u>	<u>\$ 26,405</u>

**Note 7. 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 8. 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 9. 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](http://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 employees' gross covered salary. The contribution requirements of plan members and the District are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$62,919, \$59,742, and \$61,312, respectively, which equal the amount of the required contributions for each fiscal year.

#### **Note 10. 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 11. 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 12. 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 13. Prior Period Adjustment**

The following adjustments were made to Net Assets to correct carrying amounts of the following:

Accounts payable	\$ (954)
Capital assets	(38,866)
Accumulated depreciation	<u>30,717</u>
Prior period adjustment to Net Assets	<u>\$ (9,103)</u>

## **Supplementary Information**

STATE OF NEW MEXICO  
 PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Revenues, Expenditures, and Changes in Cash Balance -  
 Budget and Actual (Non - GAAP Budgetary Basis)  
 Year Ended June 30, 2012

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property taxes	\$ 2,309,754	\$ 2,309,754	\$ 2,302,437	\$ (7,317)
Sales and service	3,000	3,000	41,967	38,967
Interest income	699,541	699,541	113,938	(585,603)
Total revenues	<u>3,012,295</u>	<u>3,012,295</u>	<u>2,458,342</u>	<u>(553,953)</u>
Expenditures:				
Current:				
Salaries	368,910	368,910	282,218	86,692
Employee benefits	294,625	294,625	243,028	51,597
Professional services	600,000	600,000	235,357	364,643
Services	50,000	50,000	21,773	28,227
Utilities	20,000	20,000	12,858	7,142
Insurance	75,000	75,000	43,865	31,135
Office	15,000	15,000	5,275	9,725
Supplies	20,000	20,000	6,567	13,433
Maintenance	70,000	70,000	47,275	22,725
Meter supplies	100,000	100,000	102,201	(2,201)
Capital outlay	583,960	583,960	73,380	510,580
Travel	75,000	75,000	64,841	10,159
Continuing education	50,000	50,000	20,953	29,047
Basis water master	398,000	398,000	281,416	116,584
Tax collection expenses	25,000	25,000	23,265	1,735
Plugging	100,000	100,000	77,401	22,599
Government affairs	25,000	25,000	24,600	400
Audit	6,000	6,000	5,879	121
Fuel	50,000	50,000	14,882	35,118
Bank charges	800	800	89	711
Public relations	10,000	10,000	4,965	5,035
Co-op and Joint powers agreements	75,000	75,000	9,684	65,316
Total expenditures	<u>3,012,295</u>	<u>3,012,295</u>	<u>1,601,772</u>	<u>1,410,523</u>
Excess (deficiency) revenues over expenditures	-	-	856,570	856,570
Other financing items:				
Reimbursed plugging costs	-	-	35,000	35,000
Net principal loaned and collected for the conservation loans	-	-	(335,702)	(335,702)
Total other financing sources (uses)	-	-	<u>(300,702)</u>	<u>(300,702)</u>

See notes to financial statements

STATE OF NEW MEXICO  
 PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Revenues, Expenditures, and Changes in Cash Balance -  
 Budget and Actual (Non - GAAP Budgetary Basis)  
 Year Ended June 30, 2012

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Net change in fund balances	-	-	555,868	555,868
Cash balance, beginning	-	-	6,902,401	6,902,401
Cash balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,458,269</u>	<u>\$ 7,458,269</u>

Net change in fund balance (Non-GAAP Budgetary Basis)	\$ 555,868
Net adjustment for taxes receivable accrual	22,269
Net adjustment for interest receivable accrual	(2,184)
Net adjustment for prepaid accrual	6,839
Net adjustment for inventory accrual	(12,193)
Net adjustment for accounts payable	21,947
Net adjustment for annual leave accrual	(6,515)
Net adjustment for capital outlay	188,043
Net adjustment for accumulated depreciation	(119,573)
Net adjustment for new loans and principal payments	<u>335,702</u>
Net change in fund balance (GAAP Basis)	<u>\$ 990,203</u>

See notes to financial statements



## **Other Supplemental Information**

STATE OF NEW MEXICO  
 PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Bank Reconciliation  
 For the Year Ended June 30, 2012

	<u>Beginning Cash</u>	<u>Receipts</u>	<u>Distributions</u>	<u>Other</u>	<u>Net Cash at Year End</u>
Pecos Valley Artesian Conservancy District	\$ 6,902,401	\$ 2,458,342	\$ (1,601,772)	\$ (300,702)	\$ 7,458,269
Total cash	<u>\$ 6,902,401</u>	<u>\$ 2,458,342</u>	<u>\$ (1,601,772)</u>	<u>\$ (300,702)</u>	<u>\$ 7,458,269</u>

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Name</u>	<u>Bank Amount</u>
Pecos Valley Artesian Conservancy District			
Operating checking account	Checking	First American	\$ 14,211
Operating money market account	Checking	First American	3,095,888
Loan checking account	Checking	First American	1,000
Loan money market account	Checking	First American	1,026,204
Loan savings account	Savings	First American	1,290,099
Operating money market account	Checking	Washington Federal Savings Bank	1,034,613
Certificate of deposit	C D	Washington Federal Savings Bank	500,000
Certificate of deposit	C D	Washington Federal Savings Bank	500,000
Total bank balances			<u>\$ 7,462,015</u>

Total bank balances	\$ 7,462,015
Reconciling items - outstanding deposits	-
Reconciling items - outstanding checks	<u>(3,746)</u>
Total cash	<u>\$ 7,458,269</u>

## **Compliance Section**

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 H. 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

I 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, 2012, and have issued my report thereon dated November 27, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2012-2

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 2011-1 and 2012-1


#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 responses as items 2011-1, 2012-1, 2012-2 and 2012-3.

I also noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 2012-2 and 2012-3.

The District's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. I did not audit the District's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of management, the board members, others within the District, DFA, the Office of the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

  
Sandra Rush, CPA PC  
November 27, 2012

Prior Year Audit Findings

2011-1 Personnel Policy Repeated

2011-1 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 require that the entity follows the board approved 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 the same manner as other employees. The policy is subject to interpretation and is unclear.

Recommendation

I recommend the Board review the policy and clarify the wording so all employees are treated the same.

Response

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

Current Year Audit Findings

2012-1 Mileage - Compliance and Internal Control - Significant Deficiency

Condition

The mileage paid to employees and Board Members exceeded the approved Internal Revenue Service rate. The District is reimbursing mileage at 58.5 cents, the IRS mileage reimbursement rate 55.5 cents.

Criteria

IR-2011-69, June 23, 2011 — starting July 1 2011, the standard mileage rate for business miles driven is 55.5 cents per mile.

Cause

The District's policy for mileage reimbursement had not been updated since 2008. The IRS updates the allowed mileage rate at least annually. The District was unaware that the IRS issued new rates annually.

Effect

The District is not in compliance with IRS regulations.

Recommendation

I recommend the District obtain the IRS rates at least annually and update the policy to include the allowable rate.

Response

The District will verify the allowed IRS mileage rate each year in January and June and update the policy to reflect the approved rate.

2012-2 Capital Asset Listing – Compliance and Internal Control – Material Weakness

Condition

For the year ended June 30, 2012, the District had not maintained a capital asset listing that was reconciled to the general ledger and in compliance with the GASB 34. For several years the capital asset listing has been maintained by the predecessor auditor. The District requested the capital asset records from the auditor, but the records provided were not in a usable form, the predecessor auditor e mailed the District a PDF file. The District was unable to make additions or deletions or compute depreciation expense without recreating the listing. The records provided by the predecessor auditor lacked asset identification and location and appeared to have obsolete equipment and equipment the District no longer owns. As a result, the financial statements of the District may be materially misstated due to the balances of capital assets and accumulated depreciation being materially misstated.

Criteria

The State Audit Act, 12-6-10 NMSA 1978 requires that the District prepare and maintain an accurate listing of capital assets. The District must have a capital assets management policy to provide accountability for the safeguarding of assets in accordance with GASB 34 and Section 12-2-10 NMSA 1978.

Section 12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency's auditors.

Cause

There are no procedures in place to ensure that all capital assets are accounted for in a capital asset inventory listing. Further, the District did not have a system in place to track capital asset additions and deletions and to calculate and account for depreciation and accumulated depreciation. The District's predecessor auditor maintained the capital asset records.

Effect

Lack of sufficient records results in assets that are not properly safeguarded. Asset identification and location are essential in the prevention of theft and loss of assets due to fraudulent activity. Capital assets cannot be depreciated due to lack of information that is being maintained. As a result, the financial statements of the District may be materially misstated due to the balances of capital assets and accumulated depreciation being materially misstated.

Recommendation

The District should develop procedures to ensure that all capital assets are accounted for in a capital asset inventory listing. The District should establish controls over its capital assets in order to safeguard them and establish accountability for their custody and use. (Capital Asset Controls 2.20.1.15, NMAC) Such controls should apply to authorization to acquire fixed assets, receiving purchases, tagging the assets, assigned location, individuals responsible for tracking use and location, and fund and organizational unit fund and organizational unit

The District should conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year, certify the correctness of the inventory after the physical inventory, and provide the certification the District's auditors.

Agency response

The District will develop a capital asset listing.



PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT  
Schedule of Findings and Responses  
June 30, 2012

2012-3      Audit Report Filed Late – Compliance and Internal Control – Material Weakness

Condition

The June 30, 2012 audit report was submitted to the State Auditor's office December 18, which was not timely.

Criteria

According to State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by December 1 of the fiscal year audited.

Cause

The audit was not submitted to the New Mexico State Auditor on or before December 1, 2012.

Effect

The District is not in compliance with State Auditor Rule 2.2.2.9.A for the fiscal year ended June 30, 2012.

Recommendation

The audit needs to be submitted timely.

Agency response

The District agrees.

Financial Statement Preparation

The financial statements were prepared by District personnel with assistance from Sandra Rush, CPA. The financial statements remain the responsibility of the District's management.

Exit Conference

The contents of this report were discussed with, Richard Smith, Board Member, Aron Bolok, Superintendent, Patty Barresi, Secretary and Sandra Rush CPA, in an exit conference on November 27, 2012.