
Pecos Valley Artesian Conservancy District
June 30, 2013

Financial Statements and Supplementary Information
As Of And For The Year Ended June 30, 2013
With Independent Auditor's Report Thereon

Sandra Rush
Certified Public Accountant, PC

1101 E Llano Estacado
Clovis, New Mexico 88101

Introductory Section

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Official Roster
For the year ended June 30, 2013

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

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

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For the year ended December 31, 2013

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Financial Section

Sandra Rush

Certified Public Accountant PC

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Independent Auditor's Report

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
The Governing Board
Pecos Valley Artesian Conservancy District
Roswell, New Mexico

Mr. Balderas and Members of the Board

Report on Financial Statements

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, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. I also have audited the budgetary comparison as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions 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 from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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, 2013, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Information

My audit was conducted for the purpose of forming opinions on the District's financial statements, and the budgetary comparison. The other schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In my opinion, the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 23, 2013 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* in considering the District's internal control over financial reporting and compliance.



Sandra Rush CPA PC
Clovis, New Mexico
August 23, 2013

Basic Financial Statements

Proprietary Fund Financial Statements

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Net Position - Proprietary Fund

June 30, 2013

ASSETS

Current assets:

Cash	\$ 6,467,109
Investments	2,000,000
Receivables:	
Property taxes	46,269
Interest	42,696
Inventory	32,623
Prepaid expenses	35,968

Total current assets	8,624,665
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Non-current assets:

Capital assets:

Land	61,405
Construction in progress	48,695
Buildings and improvements	328,193
Meters	671,354
Vehicles and equipment	808,350
Less accumulated depreciation	(971,213)

Total capital assets	946,784
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Conservation loans receivable	2,083,793
Water rights	3,959,628

Total non-current assets	6,990,205
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Total assets	\$ 15,614,870
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LIABILITIES AND NET POSITION

LIABILITIES

Current liabilities:

Accounts payable	\$ 71,176
Payroll liabilities	936
Compensated absences	26,653

Total current liabilities	98,765
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NET POSITION

Invested in capital assets	946,784
Restricted	-
Unrestricted	14,569,321

Total net position	15,516,105
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Total liabilities and net position	\$ 15,614,870
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See notes to financial statements

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
June 30, 2013

Operating revenues	
Meter sales and other operating revenues	\$ 45,017
Operating expenses	
Current	
Salaries	327,702
Employee benefits	291,365
Legal and professional fees	336,853
Services	17,988
Utilities	12,635
Insurance and bonds	45,518
Office	6,534
Supplies	8,941
Maintenance	31,319
Meter supplies	164,933
Travel	85,640
Training, meeting and conferences	22,363
Water master	238,398
Plugging	37,362
Government affairs	15,025
Audit fees	6,878
Fuel	18,738
Bank charges	550
Public relations	6,221
Roswell Basin joint study	10,194
Subscriptions and memberships	3,394
Capital outlay <\$5,000	2,635
Depreciation	89,306
Total operating expenses	<u>1,780,492</u>
Operating income (loss)	(1,735,475)
Nonoperating revenues (expenses)	
Property taxes	2,383,120
Tax collection expenses	(23,969)
Reimbursed plugging costs	24,726
Gain (loss) on disposal of assets	(1,138)
Interest income	104,040
Total nonoperating revenues (expenses)	<u>2,486,779</u>
Change in net position	751,304
Net position, beginning	14,876,356
Prior period adjustment	<u>(111,555)</u>
Net position, beginning restated	<u>14,764,801</u>
Net position, ending	<u>\$ 15,516,105</u>
See notes to financial statements	

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Cash Flows
June 30, 2013

Cash flows from operating activities	
Receipts from customers and users	\$ 44,995
Payments to employees and suppliers	<u>(1,654,587)</u>
Net cash provided by operating activities	<u>(1,609,592)</u>
Cash flows from non-capital financing activities	
Property taxes	2,395,237
Tax collection expense	(23,969)
Reimbursed plugging costs	24,726
Net principal loaned and collected for the conservation loans	<u>266,061</u>
Net cash provided (used) non-capital financing activities	<u>2,662,055</u>
Cash flows from capital and related financing activities	
Sale of capital assets	6,000
Purchase of capital assets	<u>(146,696)</u>
Net cash provided (used) by capital and related financing activities	<u>(140,696)</u>
Cash flows from investing activities	
Interest income	<u>97,073</u>
Net cash provided by investing activities	<u>97,073</u>
Net increase (decrease) in cash	1,008,840
Cash, beginning of year	<u>7,458,269</u>
Cash, end of year	<u>\$ 8,467,109</u>
Reconciliation of net income to net cash provided by	
Operating activities	
Operating income	\$ (1,735,475)
Adjustments to reconcile net income to net cash	
Provided by operating activities	
Depreciation	89,306
(Increase) decrease in inventory	19,205
(Increase) decrease in prepaid expenses	(10,417)
Increase (decrease) in accounts payable	<u>27,789</u>
Net cash provided by operating activities	<u>\$ (1,609,592)</u>

Notes to Financial Statements

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 61 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). 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 is accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net position, 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 position is segregated into invested capital assets, 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 position, statement of revenues, expenses and changes in net position 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 position and the operating statements present increases (revenues) and decreases (expenses) in net total position. 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, 2013.

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.

Inventory

Inventory is valued at cost utilizing the purchase basis of accounting. The District's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expense until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials.

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 & 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 \$26,653 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.

Short term debt

Short-term debt results from borrowings characterized by anticipation notes, use of lines of credit, and similar loans. The District does not have any activity in short-term debt.

Net Position

Net Position comprises the various earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted; and unrestricted. "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 position" consists of net position 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 position" consists of all other net position not included in the above categories.

Restricted Net Position

For the government-wide statement of net position, net position is reported as restricted when constraints placed on net position 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 position is available it will first be applied to restricted resources.

Note 2. Deposits and Investments

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

	First American Bank Roswell, NM	Washington Federal Savings Bank Roswell, NM	Reconciled Balance	Type
Petty cash	\$	\$	\$ 100	Petty cash
Total amount on deposit on June 30, 2013				
Pecos Valley Artesian Conservancy District	29,420	-	24,668	Checking
Pecos Valley Artesian Conservancy District	1,000	-	1,000	Checking
Pecos Valley Artesian Conservancy District	3,740,825	-	3,740,825	Checking
Pecos Valley Artesian Conservancy District	1,181,305	-	1,181,305	Savings
Pecos Valley Artesian Conservancy District	481,494	-	481,494	Savings
Pecos Valley Artesian Conservancy District		1,037,717	1,037,717	Checking
Pecos Valley Artesian Conservancy District		500,000	500,000	CD
Pecos Valley Artesian Conservancy District		500,000	500,000	CD
Pecos Valley Artesian Conservancy District		500,000	500,000	CD
Pecos Valley Artesian Conservancy District		500,000	500,000	CD
Total deposited	5,434,044	3,037,717		
Less FDIC coverage	(250,000)	(250,000)	\$ 8,467,109	
Total uninsured public funds	5,184,044	2,787,717		
50% collateral requirement as per Section 6-10-17, NMSA 1978	2,592,022	1,393,859		
Pledged securities	2,625,253	1,399,391		
Over (under)	\$ 33,231	\$ 5,533		

First American	Description	CUISP #	Market or Par Value*	Maturity Date
	Gallup McKinley NM SD	364010NR5	\$ 189,728	08/01/16
	Dulce NM ISD No 21-EMT	264430KA6	129,463	09/17/17
	FNMA 1st Time Call	3136FTEK1	100,371	10/28/16
	Dulce NM USD No 21-ASSU	264430KH1	298,628	09/01/16
	Dulce NM ISD No 21-ASSU	264430KK4	63,233	09/01/18
	MBS GNMA 1 15-Yr SF	36200M2N2	15,649	11/15/18
	Belen NM Cons Sch Dist	077581MQ6	185,964	08/01/20
	Taos NM Muni SD #001 St	876014FF3	429,589	09/01/20
	San Juan Cnty NM Cent	798359HT5	948,618	08/01/21
	Alamogordo NM	011446FX4	264,010	08/01/24
			\$ 2,625,253	

The above securities are located at FHLB Dallas Texas.

Washington Federal	Description	CUISP #	Market or Par Value*	Maturity Date
	FHLMC Gold PC A94288	3620E0NW2	1,399,391	08/20/61

The above securities are located at FHLB Seattle Oregon.

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.

First American Bank Depository Account	Bank Balance
Insured	\$ 250,000
Collateralized:	
Collateral held by the pledging bank not in the Districts name	2,625,253
Under insured and under collateralized	<u>2,558,791</u>
Total Deposits	<u>\$ 5,434,044</u>

Washington Federal Savings Bank Depository Account	Bank Balance
Insured	\$ 250,000
Collateralized:	
Collateral held by the pledging bank not in the Districts name	1,399,391
Under insured and under collateralized	<u>1,388,326</u>
Total Deposits	<u>\$ 3,037,717</u>

Note 3. Accounts Receivable

Receivables as of June 30, 2013, were as follows:

Receivables	Total
Property Tax	\$ 46,269
Interest	<u>42,696</u>
	<u>\$ 88,965</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	Additions	Payments	Ending Balance
Conservancy Loans	<u>\$ 2,349,852</u>	<u>\$ 110,016</u>	<u>\$ (376,075)</u>	<u>\$ 2,083,793</u>

Note 5. Capital Assets

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

	Beginning Balances	Increase	Adjustments/ Decrease	Ending Balances
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 61,405	\$ -	\$ -	\$ 61,405
Construction in progress	48,695	-	-	48,695
Capital assets being depreciated				
Buildings	\$ 334,290	\$ -	\$ (6,098)	\$ 328,192
Meters	840,748	-	(169,396)	671,352
Field Equipment	96,802	-	-	96,802
Office Furniture & Equipment	301,240	-	-	301,240
Vehicles & Drilling Rig	297,695	155,347	(42,731)	410,311
Total assets being depreciated	<u>1,980,875</u>	<u>155,347</u>	<u>(218,225)</u>	<u>1,917,997</u>
Less accumulated depreciation				
Buildings	(103,113)	(8,950)	4,675	(107,388)
Meters	(358,694)	(44,757)	57,841	(345,610)
Field Equipment	(33,316)	(5,647)	-	(38,963)
Office Furniture & Equipment	(296,854)	(1,096)	-	(297,950)
Vehicles & Drilling Rig	(189,460)	(28,856)	37,014	(181,302)
Total accumulated depreciation	<u>(981,437)</u>	<u>(89,306)</u>	<u>99,530</u>	<u>(971,213)</u>
Business-type activity capital assets, net	<u>\$ 999,438</u>	<u>\$ 66,041</u>	<u>\$ (118,695)</u>	<u>\$ 946,784</u>

Note 6. Compensated Absences

	Beginning Balance	Additions	Reductions	Ending Balance
Other Liabilities				
Compensated Absences	\$ 26,405	\$ 20,661	\$ (20,413)	\$ 26,653

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 - Public Employees Retirement Association

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 <http://www.pera.state.nm.us>.

Funding Policy. Plan members are required to contribute 13.15% (ranges from 3.83% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The District is required to contribute 9.15% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the District are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the fiscal years ending June 30, 2013, 2012 and 2011 were \$72,968, \$62,919, and \$59,742, 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 meter 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. Subsequent Events Review

The District has evaluated subsequent events through August 23, 2013, which is the date the financial statements were dated.

Note 14. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance
There are no instances of deficit fund balances.
- B. Excess expenditures over budget at the fund level.
There are no instances of excess expenditures over budget at the fund level.

Note 15. Prior Period Adjustment

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

Capital assets	
Meters	\$ (169,396)
Accumulated depreciation	<u>57,841</u>
Prior period adjustment to Net Position	<u><u>\$ (111,555)</u></u>

Supplementary Information

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Revenues, Expenses, and Changes in Cash Balance -
Budget and Actual (Non - GAAP Budgetary Basis)
Year Ended June 30, 2013

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Sales and service	\$ 3,000	\$ 3,000	\$ 44,995	\$ 41,995
Property taxes	2,322,552	2,322,552	2,395,237	72,685
Interest income	82,031	82,031	97,073	15,042
Total revenues	<u>2,407,583</u>	<u>2,407,583</u>	<u>2,537,305</u>	<u>129,722</u>
Expenses:				
Current:				
Salaries	336,000	336,000	327,454	8,546
Employee benefits	288,825	288,825	291,293	(2,468)
Professional services	400,000	400,000	306,400	93,600
Services	50,000	50,000	18,075	31,925
Utilities	25,000	25,000	12,728	12,272
Insurance	43,600	43,600	55,935	(12,335)
Office	15,000	15,000	7,426	7,574
Supplies	20,000	20,000	8,986	11,014
Maintenance	75,000	75,000	31,981	43,019
Meter supplies	150,000	150,000	149,040	960
Travel	75,000	75,000	80,956	(5,956)
Continuing education	50,000	50,000	22,293	27,707
Water master	398,000	398,000	238,398	159,602
Plugging	100,000	100,000	39,430	60,570
Government affairs	30,000	30,000	15,025	14,975
Audit	10,000	10,000	6,878	3,122
Fuel	50,000	50,000	18,613	31,387
Bank charges	700	700	548	152
Public relations	10,000	10,000	6,241	3,759
Roswell Basin joint study	75,000	75,000	10,898	64,102
Subscriptions and memberships	3,500	3,500	3,354	146
Capital assets <\$5,000	5,162	5,162	2,635	2,527
Tax collection	28,000	28,000	23,969	4,031
Capital outlay	<u>1,000,000</u>	<u>1,000,000</u>	<u>146,696</u>	<u>853,304</u>
Total expenditures	<u>3,238,787</u>	<u>3,238,787</u>	<u>1,825,252</u>	<u>1,413,535</u>
Excess (deficiency) revenues over expenses	(831,204)	(831,204)	712,053	1,543,257
Other financing items:				
Reimbursed plugging costs	-	-	24,726	24,726
Sale of capital asset	-	-	6,000	6,000
Net principal loaned and collected for the conservation loans	-	-	<u>266,061</u>	<u>266,061</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>296,787</u>	<u>296,787</u>

See notes to financial statements

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Revenues, Expenses, and Changes in Cash Balance -
Budget and Actual (Non - GAAP Budgetary Basis)
Year Ended June 30, 2013

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Net change in fund balances	(831,204)	(831,204)	1,008,840	1,840,044
Cash balance, beginning	-	-	7,458,269	7,458,269
Cash balance, ending	<u>\$ (831,204)</u>	<u>\$ (831,204)</u>	<u>\$ 8,467,109</u>	<u>\$ 9,298,313</u>

Net change in fund balance (Non-GAAP Budgetary Basis)	\$ 1,008,840
Net adjustment for taxes receivable accrual	(12,117)
Net adjustment for interest receivable accrual	6,967
Net adjustment for prepaid accrual	10,417
Net adjustment for inventory accrual	(19,205)
Net adjustment for accounts payable	(27,789)
Net adjustment for gain (loss) disposal of assets	(7,138)
Net adjustment for capital outlay	146,696
Net adjustment for accumulated depreciation	(89,306)
Net adjustment for new loans and principal payments	<u>(266,061)</u>
Net change in fund balance (GAAP Basis)	<u>\$ 751,304</u>

See notes to financial statements

Other Supplemental Information

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Bank Reconciliation
For the Year Ended June 30, 2013

	<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	\$ 7,458,269	\$ 2,537,305	\$ (1,825,252)	\$ 296,787	\$ 8,467,109
Total cash	<u>\$ 7,458,269</u>	<u>\$ 2,537,305</u>	<u>\$ (1,825,252)</u>	<u>\$ 296,787</u>	<u>\$ 8,467,109</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	\$ 29,420
Operating money market account	Checking	First American	3,740,825
Loan savings account	Savings	First American	481,494
Loan checking account	Checking	First American	1,000
Loan money market account	Checking	First American	1,181,305
Operating money market account	Checking	Washington Federal Savings Bank	1,037,717
Certificate of deposit	C D	Washington Federal Savings Bank	500,000
Certificate of deposit	C D	Washington Federal Savings Bank	500,000
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>\$ 8,471,761</u>

Total bank balances	\$ 8,471,761
Reconciling items - outstanding deposits	-
Reconciling items - outstanding checks	<u>(4,752)</u>
Total reconciled bank balance	8,467,009
Petty cash	<u>100</u>
Total cash	<u>\$ 8,467,109</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*
Independent Auditor's Report

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
The Governing Board
Pecos Valley Artesian Conservancy District
Roswell, New Mexico

Mr. Balderas and Members of the Board

I have audited, in accordance with the 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, the financial statements of the business-type activities, the aggregate remaining fund information, the budgetary comparison of the Pecos Valley Artesian Conservancy District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated August 23, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I

consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that I consider to be significant deficiencies. 2013-1 and 2013-2

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. 2013-2

The District's Response to Findings

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

Purpose of this Report

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



Sandra Rush CPA PC
Clovis, New Mexico
August 23, 2013

Prior Year Audit Findings

2012-1 Mileage - Compliance and Internal Control - Significant Deficiency	Corrected
2012-2 Capital Asset Listing – Compliance and Internal Control – Material Weakness	Corrected
2012-3 Audit Report Filed Late – Compliance and Internal Control – Material Weakness	Corrected
2011-1 Personnel Policy	Corrected

Current Year Audit Findings

2013-1 Receipt Books - Significant Deficiency – Internal Controls

Condition

The District does not issued pre numbered receipts to document receipt of all revenue.

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that management is responsible for maintaining internal controls that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with managements assertions embodied in the financial statements.

Cause

Management is unaware of this requirement

Effect

Management is not ensuring proper internal control procedures are being followed.

Recommendation

Management should start using triple copy, pre numbered receipts as soon as possible. The original receipt should be provided to the customer, the second receipt should be attached to the file copy of the sales invoice or other revenue documentation, and the third copy should be kept in the receipt book. In the event a receipt is voided, all three copies should be kept in the receipt book. The receipt number should be recorded in QuickBooks as a document number.

Response

The PVACD has adopted the practice of using triple copy, numbered receipts.

2013-2 Interest calculation on promissory notes - Significant Deficiency – Internal Controls / Compliance

Condition

The District makes loans to farmers for conservancy projects. The promissory note states "The interest will accrue on the unpaid principal balance hereof at the rate of three and one-half percent (3 1/2%) per annum from and after the date hereof until paid." However the interest is calculated for 365 days instead of the actual number of days between payments.

Criteria

Based on the terms of the contract, interest should be calculated on the number of days the principal is unpaid.

Cause

Management stated it is too difficult to calculate the interest for the actual number of days between payments.

Effect

The District is not in compliance with the terms of the promissory note.

Recommendation

The district should either calculate the interest for the correct number of days or change the promissory note to agree with the way the interest is actually calculated.

Response

The PVACD will calculate interest based on the date of payment, allowing for the payment to be adjusted if payment is made either early or late. The matter of interest accrual has been put on the agenda to be discussed by the PVACD Board of Directors.

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, Mike Fallwell, Director Aron Bolok, Superintendent, Patty Barresi, Secretary and Sandra Rush CPA, in an exit conference on August 23, 2013.