



Pecos Valley Artesian Conservancy District
Roswell, New Mexico

Annual Financial Report
June 30, 2019

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



Pecos Valley Artesian Conservancy District
 Table of Contents
 For the Year Ended June 30, 2019

	<u>Page</u>
Official Roster.....	3
Independent Auditor's Report.....	4-5
Financial Section	
Basic Financial Statements	
Government Wide Financial Statements	
Statement of Net Position.....	6
Statement of Activities.....	7
Fund Financial Statements	
Governmental Fund - Balance Sheet.....	8
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.....	9
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	10
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	11
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual	12-13
Notes to Financial Statements	14-25
Required Supplemental Information	
Schedules of Required Supplementary Information for Pension Plan.....	27
Compliance	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	28-29
Findings and Responses	30-32

Pecos Valley Artesian Conservancy District
Official Roster
June 30, 2019

Board of Directors

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

Administrative Staff

Aron Balok	Superintendent
Patty Barresi	Secretary

De'Aun Willoughby CPA, PC

Certified Public Accountant

225 Innsdale Terrace Clovis, NM 88101

(855) 253-4313

Independent Auditor's Report

Mr. Brian S. Colón
State Auditor of the State of New Mexico
Board of Directors of the Pecos Valley Artesian Conservancy District

Mr. Colón and Members of the Board

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the budgetary comparison for the general fund of the Pecos Valley Artesian Conservancy District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the District as of June 30, 2019, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund 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 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 Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedules of Required Supplementary Information for the Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

De'Aun Willoughby, CPA, PC

Clovis, New Mexico
October 31, 2019

Pecos Valley Artesian Conservancy District
Government-Wide Statement of Net Position
June 30, 2019

Assets	
Current Assets	
Cash in Banks	\$ 10,549,975
Property Taxes Receivable	428,311
Interest Receivable	40,590
Inventory	66,325
Prepaid Expenses	51,003
Current Amount of Loans Receivable	267,461
Total Current Assets	<u>11,403,665</u>
Noncurrent Assets	
Capital Assets	
Land	61,405
Water Rights	20,486,493
Buildings & Improvements	472,730
Meters	1,049,667
Vehicles & Equipment	1,654,505
Less Accumulated Depreciation	<u>(1,590,307)</u>
Total Capital Assets	22,134,493
Conservation Loans Receivable	<u>1,445,536</u>
Total Assets	<u>34,983,694</u>
Deferred Outflows of Resources	
Deferred Outflows Related to Pensions	
Actuarial Experience	22,717
Investment Experience	58,296
Changes of Assumptions	71,264
Changes in Proportion	42,302
Contributions Subsequent to Measurement Date	41,148
Total Deferred Outflows of Resources	<u>235,727</u>
Liabilities and Net Position	
Current Liabilities	
Accounts Payable	32,203
Compensated Absences	36,887
Total Current Liabilities	<u>69,090</u>
Noncurrent Liabilities	
Pension Liability	<u>786,025</u>
Total Noncurrent Liabilities	<u>786,025</u>
Total Liabilities	<u>855,115</u>
Deferred Inflows of Resources	
Deferred Inflows Related to Pensions	
Actuarial Experience	20,637
Changes of Assumptions	4,519
Total Deferred Inflows of Resources	<u>25,156</u>
Net Position	
Net Investment in Capital Assets	22,134,493
Unrestricted	12,204,657
Total Net Position	<u>\$ 34,339,150</u>

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

Pecos Valley Artesian Conservancy District
 Government-Wide Statement of Activities
 For the Year Ended June 30, 2019

Program Expenditures		
Personnel Services	\$	865,465
Legal & Professional Fees		680,935
Water Management Expenses		52,751
Operating Expenses		561,752
Interest Expense		180,366
Depreciation		139,473
Total Expenses		<u>2,480,742</u>
Net Program (Expenditures) Revenue		<u>(2,480,742)</u>
General Revenues		
Property Taxes		5,704,457
Interest Income		91,650
Property Income		1,530,836
Other		72,701
Total General Revenues		<u>7,399,644</u>
Change in Net Position		<u>4,918,902</u>
Net Position at Beginning of Year		29,406,908
Restatement-Note E		13,340
Restated Beginning Net Position		<u>29,420,248</u>
Net Position at End of Year	\$	<u><u>34,339,150</u></u>

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

Pecos Valley Artesian Conservancy District

Balance Sheet

June 30, 2019

Assets

Cash in Banks	\$ 10,549,975
Property Taxes Receivable	428,311
Interest Receivable	40,590
Inventory	66,325
Prepaid Expenses	51,003
Total Assets	<u>\$ 11,136,204</u>

Liabilities

Current Liabilities

Accounts Payable	\$ <u>32,203</u>
Total Current Liabilities	<u>32,203</u>

Deferred Inflows of Resources

Unavailable Revenue	<u>343,277</u>
Total Deferred Inflows of Resources	<u>343,277</u>

Fund Balances

Nonspendable-Inventory	66,325
Unassigned	<u>10,694,399</u>
Total Fund Balances	<u>10,760,724</u>

Total Liabilities and Deferred Inflows of Resources

\$ 11,136,204

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

Pecos Valley Artesian Conservancy District
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 June 30, 2019

Total Fund Balance - Governmental Funds		\$ 10,760,724
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Property taxes receivable will be collected after the period of availability, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		343,277
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital Assets	\$ 23,724,800	
Accumulated Depreciation	<u>(1,590,307)</u>	22,134,493
Conservation loans are not collectible in the current period and therefore are not reported as assets in the funds.		1,712,997
Deferred Outflows and Inflows Related to Pensions are the results of differences in expected and actual actuary experience and the difference in actuary projected and actual earnings. Also changes in proportion and differences between contributions and proportionate share of contributions.		
Deferred Outflows Related to Pensions	235,727	
Deferred Inflows Related to Pensions	<u>(25,156)</u>	210,571
Long-term and certain other liabilities, including loans payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year end consist of :		
Pension Liability	(786,025)	
Compensated Absences	<u>(36,887)</u>	<u>(822,912)</u>
Total Net Position - Governmental Activities		<u>\$ 34,339,150</u>

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

Pecos Valley Artesian Conservancy District
Statement of Revenues, Expenditures and Changes
in Fund Balance
For the Year Ended June 30, 2019

Revenues	
Sales & Service	\$ 42,286
Property Taxes	5,676,250
Interest Income	91,650
Property Income	1,530,836
Other	33,489
	<u>7,374,511</u>
Expenditures	
Current	
Salaries	431,163
Employee Benefits	361,028
Legal & Professional Fees	680,935
Water Management	52,751
Equipment Maintenance	21,177
Fuel	13,250
Government Affairs	15,050
Insurance	71,141
Income Property Expenses	155,377
Meters and Supplies	108,890
Maintenance	984
Miscellaneous	1,095
Office	7,273
Plugging Expenses	28,565
Public Relations	2,215
Subscriptions & Memberships	5,460
Shop Supplies	7,623
Tax Collection Expenses	56,670
Training and Meeting	13,385
Travel	36,291
Utilities	17,306
Capital Outlay	5,091
Total Expenditures	<u>2,092,720</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>5,281,791</u>
Other Financing Sources (Uses)	
Principal Collected on Loans to Others	401,472
New Loans Made to Others	(478,900)
Principal Paid on Loans to Banks	(3,411,994)
Interest Expense	(180,366)
Total Other Financing Sources (Uses)	<u>(3,669,788)</u>
Net Change in Fund Balance	1,612,003
Fund Balances at Beginning of Year	<u>9,148,721</u>
Fund Balance End of Year	<u>\$ 10,760,724</u>

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

Pecos Valley Artesian Conservancy District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
June 30, 2019

Net Change in Fund Balance-Governmental Funds	\$	1,612,003
Amounts reported for governmental activities in the Statement of Activities are different because:		
Some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead reported as deferred revenues. They are however, recorded as revenues in the Statement of Activities.		
Deferred Taxes Receivable, June 30, 2018	\$	(315,070)
Deferred Taxes Receivable, June 30, 2019		<u>343,277</u>
		28,207
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	(139,473)	
Capital Outlays	<u>5,091</u>	(134,382)
All of the proceeds received for the sale of capital assets is revenue in the governmental funds, but only the profit on the sale of capital assets is revenue in the Statement of Activities.		
Proceeds from the Sale of Capital Assets	(12,000)	
Profit on the Sale of Capital Assets	<u>8,926</u>	(3,074)
New loans borrowed are other financing sources in the governmental funds, but they increase long-term liabilities and repayment of loan principal is an other financing source in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
New Loans Borrowed	0	
Principal Paid on Loans	<u>3,411,994</u>	3,411,994
Conservation loans are reported in governmental funds as revenue when collected and expenditures as loaned to area agriculturist. However, for governmental activities they are not included.		
New Loans Made	478,900	
Principal Collected	<u>(401,472)</u>	77,428
Pension contributions are reported as expenses in the government funds but are deferred outflows in the Statement of Net Position. Pension expense is reported in the Statement of Activities but not in the governmental funds.		
Pension Contributions	41,148	
Pension Expense	<u>(113,594)</u>	(72,446)
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences, June 30, 2018	36,059	
Compensated Absences, June 30, 2019	<u>(36,887)</u>	(828)
Changes in Net Position of Governmental Activities	\$	<u><u>4,918,902</u></u>

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

Pecos Valley Artesian Conservancy District

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

For the Year Ended June 30, 2019

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues				
Sales & Service	\$ 10,000	\$ 10,000	\$ 42,287	\$ 32,287
Property Taxes	5,649,944	5,649,944	5,667,046	17,102
Interest Income	5,000	5,000	87,407	82,407
Principal Collected	0	0	401,472	401,472
Other	0	0	33,489	33,489
Property Income	500,000	500,000	1,530,836	1,030,836
Total Revenue	<u>6,164,944</u>	<u>6,164,944</u>	<u>7,762,537</u>	<u>1,597,593</u>
Expenditures				
Salaries	462,000	462,000	431,163	30,837
Benefits	384,894	384,894	361,177	23,717
Professional Fees	965,400	965,400	678,427	286,973
Water Management	150,000	150,000	55,735	94,265
Capital Outlay	3,046,198	3,046,198	5,091	3,041,107
Equipment Maintenance	25,000	25,000	20,629	4,371
Fuel	30,000	30,000	14,040	15,960
Government Affairs	25,000	25,000	15,050	9,950
Income Property Expense	100,000	100,000	155,377	(55,377)
Insurance	75,000	75,000	72,840	2,160
Interest	318,152	318,152	180,366	137,786
Maintenance	20,000	20,000	1,250	18,750
Meter Supplies	150,000	150,000	91,112	58,888
Miscellaneous	200	200	0	200
New Loans Made	0	0	478,900	(478,900)
Office	11,100	11,100	7,277	3,823
Other	15,000	15,000	1,094	13,906
Plugging Expenses	150,000	150,000	30,870	119,130
Public Relations	6,000	6,000	2,215	3,785
Shop Supplies	13,000	13,000	7,820	5,180
Subscriptions & Memberships	8,000	8,000	5,460	2,540
Tax Collection Expenses	70,000	70,000	56,670	13,330
Training and Meetings	30,000	30,000	13,085	16,915
Travel	100,000	100,000	38,309	61,691
Utilities	15,000	15,000	17,176	(2,176)
Principal Paid	0	0	3,411,994	(3,411,994)
Total Expenditures	<u>6,169,944</u>	<u>6,169,944</u>	<u>6,153,127</u>	<u>16,817</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,000)	(5,000)	1,609,410	1,614,410
Cash Balance Beginning of Year	<u>8,940,565</u>	<u>8,940,565</u>	<u>8,940,565</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 8,935,565</u>	<u>\$ 8,935,565</u>	<u>\$ 10,549,975</u>	<u>\$ 1,614,410</u>

Pecos Valley Artesian Conservancy District

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

For the Year Ended June 30, 2019

Reconciliation of Budgetary Basis to GAAP Basis

Excess (Deficiency) of Revenues Over Expenditures-Cash Basis	\$	1,609,410
Net Change in Taxes Receivable		37,411
Net Change in Interest Receivables		4,242
Net Change in Inventory		(17,778)
Net Change in Prepaid Expenses		1,699
Net Change in Accounts Payable		5,226
Net Change in Unavailable Revenue		(28,207)
Net Change in Fund Balance-GAAP Basis	\$	<u>1,612,003</u>

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Pecos Valley Artesian Conservancy District (District) was created by Order of the District Court of Chaves County, New Mexico on January 11, 1932 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, 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 organization for which the elected District members are financially accountable. There are not other primary governments with which the District Board is financially accountable. There are no other primary governments with which the District has a significant relationship.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) sales of meters to customers and 2) contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statement are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. for this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any are recorded only when payment is due.

Property taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. The District does not have the information regarding the uncollected delinquent property taxes and thus has not recorded its share of this receivable as called for by GASB Statement 33.

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

As a general rule, the effect of interfund activity, if applicable, has been eliminated from the government-wide financial statements. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Net Position and Fund Balance

Cash and Investments

The District's cash consists of demand deposits and certificates of deposit.

Taxes Receivable

Property taxes attach an enforceable lien as of January 1. Taxes are payable in equal semi-annual installments on November 10 and April 10 of the subsequent year. The taxes become delinquent thirty days after the due date. The taxes are collected by the County Treasurer and are remitted to the District in the month following collection.

Inventory

The District's inventory consists of meters for sale and /or use by the District. Inventory is reported at cost in the governmental activities column in the government-wide financial statements determined using the first-in, first-out method. Inventory items are reported in governmental funds as expenditures when purchased. In addition, an asset and corresponding nonspendable fund balance is reported in the governmental fund balance sheet for inventory.

Capital Assets

Capital assets, which include property, equipment (including software), equipment and furniture are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by state law as assets with an initial cost of \$5,000 and an estimated useful life of more than one year. The total amounts spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized.

The construction in progress is for a telemetry project. The system is not fully developed and not in use.

Property and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Buildings & Improvements	50-25 years
Vehicles & Equipment	7-15 years

Accounts payable

The account payable as of the balance sheet date includes routine monthly bills for services rendered and products purchased which are paid in the following month.

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 paid for accumulated vacation, but is not paid for accumulated sick leave.

Net Position and Fund Balance

The difference between the District's assets and liabilities is its net position. The District's net position consist of four components — invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, restricted for the loan program and unrestricted net position. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation and/or are legally restricted by outside parties for use for a specific purpose. A portion of the fund balance has been reserved for the loan program. The loan program resources have been classified as restricted assets on the Statement of Net Position because their use is restricted by the lender.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA's. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the approved budget.

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. There were no changes made to the budget during the fiscal year. Encumbrance accounting is not utilized by the District.

B. Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial 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 presented on the Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget and Actual (Budgetary Basis).

Pecos Valley Artesian Conservancy District
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes on all Funds
A. Cash and Investments

First American Bank	Account	Bank	Reconciled
<u>Name of the Account</u>	<u>Type</u>	<u>Balance</u>	<u>Balance</u>
		6/30/19	6/30/19
Pecos Valley Artesian Conservancy District	Non-interest Checking	\$ 16,389	\$ 6,961
Pecos Valley Artesian Conservancy District	Interest bearing Checking	3,026,603	3,026,603
Pecos Valley Artesian Conservancy District	Non-interest Checking	1,000	1,000
Pecos Valley Artesian Conservancy District	Interest bearing Savings	1,922,457	1,922,457
Pecos Valley Artesian Conservancy District	Interest bearing Savings	1,439,331	1,375,678
Pecos Valley Artesian Conservancy District	Interest bearing Savings	664,194	664,194
		<u>7,069,974</u>	<u>\$ 6,996,893</u>
	Less FDIC coverage	(500,000)	
		6,569,974	
	50% collateral requirement	3,284,987	
	Pledged securities	3,695,054	
	Over (Under) requirement	<u>\$ 410,067</u>	

The following securities are pledged:

<u>Description</u>	<u>CUSIP #</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Location</u>
Los Lunas SD 1 NM 26	545562RA0	\$ 829,480	07/15/26	FHLB in
Mosquero SD#5 NM26	619636EW9	264,245	10/15/26	Dallas, TX
Bernalillo SD	085279RRO	391,710	09/01/18	
Clovis Muni SD #1-A NM 28	189414KY0	799,009	08/01/25	
San Juan CNTY NM CENT	798359HT5	901,530	08/01/28	
Lea Cnty NM School District	521570AS0	509,080	09/01/20	
		<u>\$ 3,695,054</u>		

Washington Federal	Account	Bank	Reconciled
<u>Name of the Account</u>	<u>Type</u>	<u>Balance</u>	<u>Balance</u>
		6/30/19	6/30/19
Pecos Valley Artesian Conservancy District	Interest bearing Savings	\$ 1,411,263	\$ 1,411,263
Pecos Valley Artesian Conservancy District	Interest bearing Savings	1,133,627	1,133,627
Pecos Valley Artesian Conservancy District	Interest bearing Savings	500,000	500,000
Pecos Valley Artesian Conservancy District	Interest bearing Savings	508,192	508,192
		<u>3,553,082</u>	<u>\$ 3,553,082</u>
	Less FDIC coverage	(250,000)	
	Amount uninsured	3,303,082	
	50% collateral requirement	1,651,541	
	Pledged securities	1,874,388	
	Over (Under) requirement	<u>\$ 222,847</u>	

The following securities are pledged:

<u>Description</u>	<u>CUSIP #</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Location</u>
FNMA PL#BC2636	3140EW4W2	\$ 1,874,388	11/01/46	FHLB in
		<u>\$ 1,874,388</u>		Dallas, TX

The difference between the bank balance and the reconciled balance is outstanding deposits, outstanding checks and pending bank adjustments.

Pecos Valley Artesian Conservancy District
Notes to the Financial Statements
June 30, 2019

Custodial Credit Risk-Deposits

Depository Account	Bank Balance
Insured	\$ 750,000
Collateralized	
Collateral held by the pledging bank in District's name	5,569,442
Uninsured and uncollateralized	4,303,614
Total Deposits	<u>\$ 10,623,056</u>

Custodial Credit Risk — Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2019, \$4,303,614 of the District's bank balances totaling \$10,623,056 were exposed to custodial credit risk.

B. Taxes Receivable

Receivables as of June 30, 2019, were as follows:

Receivables	Total
Property Taxes	
Available	\$ 85,034
Unavailable	343,277
	<u>\$ 428,311</u>

C. Capital Assets

	Beginning Balance 6/30/18	Restatement	Restated Beginning Balance
Capital Assets, not being Depreciated			
Land	\$ 61,405	\$ 0	\$ 61,405
Water Rights	20,486,493	0	20,486,493
Construction in Progress	0	0	0
Capital Assets, being Depreciated			0
Buildings & Improvements	472,731	0	472,731
Meters	1,044,577	0	1,044,577
Field Equipment	120,519	0	120,519
Office Furniture & Equipment	320,888	0	320,888
Vehicles & Drilling Rig	1,228,123	26,678	1,254,801
Total Capital Assets	<u>23,734,736</u>	<u>26,678</u>	<u>23,761,414</u>
Less Accumulated Depreciation			
Buildings & Improvements	181,976	0	181,976
Meters	613,179	0	613,179
Field Equipment	72,838	0	72,838
Office Furniture & Equipment	313,626	0	313,626
Vehicles & Drilling Rig	294,508	13,339	307,847
Total Accumulated Depreciation	<u>1,476,127</u>	<u>13,339</u>	<u>1,489,466</u>
	<u>\$ 22,258,609</u>	<u>\$ 13,339</u>	<u>\$ 22,271,948</u>

Pecos Valley Artesian Conservancy District
Notes to the Financial Statements
June 30, 2019

	Additions	Deletions	Ending Balance 6/30/19
Capital Assets, not being Depreciated			
Land	\$ 0	\$ 0	\$ 61,405
Water Rights	0	0	20,486,493
Construction in Progress	0	0	0
Capital Assets, being Depreciated			
Buildings & Improvements	0	0	472,731
Meters	5,091	0	1,049,668
Field Equipment	0	0	120,519
Office Furniture & Equipment	0	0	320,888
Vehicles & Drilling Rig	0	(41,705)	1,213,096
Total Capital Assets	<u>5,091</u>	<u>(41,705)</u>	<u>23,724,800</u>
Less Accumulated Depreciation			
Buildings & Improvements	20,693	0	202,669
Meters	51,036	0	664,215
Field Equipment	7,263	0	80,101
Office Furniture & Equipment	835	0	314,461
Vehicles & Drilling Rig	59,645	(38,631)	328,861
Total Accumulated Depreciation	<u>139,472</u>	<u>(38,631)</u>	<u>1,590,307</u>
	<u>\$ (134,381)</u>	<u>\$ (3,074)</u>	<u>\$ 22,134,493</u>

Depreciation expense was charged to governmental activities as follows:

Unallocated	\$ 139,472
Total depreciation expenses	<u>\$ 139,472</u>

D. Special 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 1/0/00	New Loans Issued	Principal Received	Ending Balance 6/30/19
	\$ 1,635,569	\$ 478,900	\$ (401,472)	\$ 1,712,997

E. Long Term Debt and Other Liabilities

A summary of activity is as follows:

	Beginning Balance 1/0/00	Increases	Reductions	Ending Balance 6/30/19
Loans	\$ 3,411,994	\$ 0	\$ (3,411,994)	\$ 0
Compensated Absences	\$ 36,059	\$ 24,659	\$ 23,831	\$ 36,887

Pecos Valley Artesian Conservancy District
Notes to the Financial Statements
June 30, 2019

The loan consist of a loan from First American Bank for the purchase of water rights.

	Original Amount	Interest Rate	Maturity Date	Balance
Note Number 430503572	\$ 3,860,000	5.25%	01/11/2024	\$ 0
Note Number 430503573	2,516,800	6.50%	03/13/2028	0
				<u>\$ 0</u>

The loans were paid in full by June 30, 2019.

IV. Other Information

A. Retirement Plan

General Information about the Pension Plan

Plan description - The Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Audit Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement fund, unless specifically excluded.

Benefits provided – Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member’s final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors’ annuities are also available.

Pecos Valley Artesian Conservancy District

Notes to the Financial Statements

June 30, 2019

Tier II-The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4, and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers, and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee contribution increased 1.5 percent and effective July 1, 2014, employer contributions were raised by .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

Contributions – The following tables illustrate the various coverage options under the PERA plan and the contribution rates effective during the year.

PERA Contribution Rates and Pension Factors in effect during FY18						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99%	3.0%	2.5%	90%
MUNICIPAL PLANS 1 - 4						
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.4%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	2.5%	90%
MUNICIPAL POLICE PLANS 1 - 5						
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
MUNICIPAL FIRE PLANS 1 - 5						
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions –

At June 30, 2019, the District reported a liability of \$786,025 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2018. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's proportion was 0.0493%, which was an increase of 0.0047% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$113,594. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience.	\$ 22,717	\$ 20,637
Net difference between projected and actual earnings on pension plan investments.	58,296	0
Changes of assumptions.	71,264	4,519
Changes in proportion and differences between the District's contributions and proportionate share of contributions.	42,302	0
District's contributions subsequent to the measurement date.	41,148	0
Total	<u>\$ 235,727</u>	<u>\$ 25,156</u>

\$41,148 reported as deferred outflows of resources related to pensions resulting from District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Actuarial

Year ended June 30:	
2019	\$ 100,661
2020	47,030
2021	18,699
2022	3,033
Total	<u>\$ 169,423</u>

Pecos Valley Artesian Conservancy District

Notes to the Financial Statements

June 30, 2019

Actuarial assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	
Actuarial assumptions:	
(1) Investment rate of return	7.25% annual rate, net of investment expense
(2) Projected benefit payment	100 years
(3) Payroll growth	3.00%
(4) Projected salary increases	3.25% to 13.50% annual rate
(5) Includes inflation at	2.50%, 2.75% all other years
(6) Mortality Assumption	The mortality assumptions are based on the RPH 2014 Blue Collar mortality table with female ages set forward one year. Future improvement in mortality rates is assumed using 60% of the MP-2017 projection scale generationally. For non-public safety groups, 25% of in-service deaths are assumed to be duty related and 35% are assumed to be duty-related for public safety groups.
(7) Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2016 (economic).

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2018. These assumptions were adopted by the Board use in the June 30, 2017 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.48%
Risk Reduction & Mitigation	21.50%	2.37%
Credit Oriented Fixed Income	15.00%	5.47%
Real Assets to include Real Estate Equity	20.00%	6.48%
Total	100.00%	

Pecos Valley Artesian Conservancy District

Notes to the Financial Statements

June 30, 2019

Discount rate. A single discount rate of 7.25% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the employer name's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the employer name's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
The District's proportionate share of the net pension liability	\$ 1,211,212	\$ 786,025	\$ 434,540

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

B. 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.

C. Related Party Transactions

Directors on the Board of the District are recipients of water loans. 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.

D. Subsequent Events Review

The District has evaluated subsequent events through October 31, 2019 which is the date of the financial statements.

E. Restatement

Net Position was restated \$13,340 for a vehicle and related depreciation purchased September 12, 2013.

F. Property Tax Abatement

New Mexico Hospital Equipment Loan Council entered into an agreement with Lovelace Health System, Inc. to abate property taxes effecting the District under section 58-23-29 NMSA 1978. The gross dollar amount the property taxes were reduced are estimated to be \$30,188.

G. Significant Contingencies

There were no significant contingencies as of October 31, 2019 when the financials were issued.

Required Supplemental Information

Pecos Valley Artesian Conservancy District
Schedules of Required Supplementary Information for Pension Plan
For the Year Ended June 30, 2019

Schedule of the District's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years*

	Fiscal Year Measurement Date	2015	2016	2017	2018	2019
		2014	2015	2016	2017	2018
District's proportion of the net pension		0.04210%	0.04390%	0.04460%	0.04570%	0.04930%
District's proportionate share of the net	\$	328,428 \$	447,599 \$	712,558 \$	627,957 \$	786,025
District's covered-employee payroll	\$	362,105 \$	379,352 \$	401,618 \$	415,454 \$	430,869
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		90.70%	117.99%	177.42%	151.15%	182.43%
Plan fiduciary net position as a percentage of the total pension liability		81.29%	76.99%	69.18%	73.74%	71.13%

*Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the District is not available prior to fiscal year 2015, the year the statement's requirements became effective.

Schedule of District's Contributions

Last 10 Fiscal Years*

	June 30,				
	2015	2016	2017	2018	2019
Contractually required contribution	\$ 34,581	\$ 36,228	\$ 38,354	\$ 39,676	\$ 41,148
Contributions in relation to the	34,581	36,228	38,354	39,676	41,148
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
District's covered-employee payroll	\$ 362,105	\$ 379,352	\$ 401,618	\$ 415,454	\$ 430,869
Contributions as a percentage of covered-	9.55%	9.55%	9.55%	9.55%	9.55%

*Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for District is not available prior to fiscal year 2015, the year the statement's requirements became effective.

Notes to Required Supplementary Information

Changes of benefit terms. The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>

Assumptions: The Public Employees Retirement Association of New Mexico Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmpera.org/>

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

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

Mr. Brian S. Colón
State Auditor of the State of New Mexico
Board of Directors of the Pecos Valley Artesian Conservancy District

Mr. Colón and Members of the Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the budgetary comparison of the general fund of Pecos Valley Artesian Conservancy District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2019

Internal Control Over Financial Reporting

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

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 District'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 are less severe than a material weakness, yet important enough to merit attention by those charged with governance. However, material weaknesses may exist that have not been identified.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be significant deficiencies. 2019-002

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses; 2019-001

The District's Responses to Findings

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

Purpose of this Report

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

De'Aun Willoughby, CPA, PC

Clovis, New Mexico
October 31, 2019

Pecos Valley Artesian Conservancy District
Findings and Responses
June 30, 2019

Prior Year Audit Findings

Status

2016-001 Certified Chief Procurement Officers
2018-001 Taxable Fringe Benefits-Other Non-compliance

Resolved
Repeated & Modified

Current Year Audit Findings

Summary of Audit Results

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	N/A
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	1
Noncompliance material to financial statements noted?	N/A

2019-001 (2018-001) - Per Diem Not Included on IRS Form W-2 - Other Matters

Condition

The board members are not receiving a W-2 for the per diem received for attending the meetings.

Management has not made progress in resolving this finding.

Criteria

Internal Revenue Code IRC §3401 (c). The Internal Revenue Service classifies board members as government employees for income tax withholding purposes. Thus, the District is responsible for withholding federal and state income, social security, and Medicare taxes for applicable board payments.

Cause

The Superintendent did not correct this finding in the prior year because he disagreed with it. After consulting with legal council, the District has agreed to correct this issue.

Effect

There are additional taxes, penalties and interest for failure to report the taxable income and file required employment tax forms.

Recommendation

The District should include the board member's per diem as taxable income on employment forms as well as pay appropriate taxes.

Response

The board members will be issued a W-2 for the per diem received for attending board meetings.

Responsible Party and Timeline

The Superintendent is responsible for this finding. It should be resolved by June 30, 2020.

2019-002 - Health Insurance - Compliance and Internal Control-Significant Deficiency

Condition

District pays 100% of the health insurance for employees, spouses and dependents. The District has no policy or resolution to support paying 100%. The District has health insurance through BCBS that is not in a cafeteria plan. The District is not reporting this as a taxable benefit to each employee.

Criteria

As per IRS FAQs for government entities regarding Cafeteria Plans - A cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements of and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis.

Cause

The Pecos Valley Artesian Conservancy District was unaware that a cafeteria plan was needed.

Effect

The amount reported on the employees' W-2, Box, 1, 3 and 5 are incorrect. Employees' may owe additional federal and state taxes.

Recommendation

The District should invest in a cafeteria plan or add the benefit to the employees' W-2s and pay the payroll taxes.

Response

The Pecos Valley Artesian Conservancy District have switched to a Cafeteria plan as of October 30, 2019.

Responsible Party and Timeline

The Board and Superintendent are responsible for this finding. It is resolved as of October 30, 2019.

Financial Statement Preparation

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

Exit Conference

An exit conference was held on October 28, 2019 present was Greg Alpers-Vice-Chairman, Mike Fallwell-Assistant Secretary/Treasurer, Wesley Needham Jr-Employee, Patty Barresi-Secretary, Starla Sharp-Auditor, and De'Aun Willoughby, CPA.