



CPA

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**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
AUDITED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION
JUNE 30, 2013 and 2012**

INTRODUCTORY SECTION

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
TABLE OF CONTENTS
JUNE 30, 2013 and 2012**

	Page
INTRODUCTORY SECTION:	
TABLE OF CONTENTS	i
Official Roster	ii
 FINANCIAL SECTION:	
Independent Auditor's Report	1-2
Management's Discussion and Analysis (Required Supplementary Information)	3-7
 BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements	
Comparative Statement of Net Position	8
Comparative Statement of Activities	9
 Fund Financial Statements	
Comparative Balance Sheet-Governmental Funds	10
Comparative Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	11
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Comparative Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities- Governmental Funds	13
Comparative Budgetary Comparison Statement (Non-GAAP Basis) – General Fund	14-15
Comparative Budgetary Comparison Statement – Budget-to-GAAP Reconciliation – General Fund	16
Notes to the Basic Financial Statements	17-28
 OTHER REPORTS:	
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>	29-30
 SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES:	 31-32
 EXIT CONFERENCE:	 33

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
OFFICIAL ROSTER
JUNE 30, 2013**

BOARD OF TRUSTEES

Mary Lou Kern	President
Roger Lee Kuchan	Vice President
Bill Goebel	Secretary - Treasurer
Raymond Nystul	Member
Karl Shubert	Member

ADMINISTRATIVE STAFF

Steve Hicks	General Manager
Telena Shubert	Secretary/Bookkeeper

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Vermejo Conservancy District and

Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying comparative financial statements of the governmental activities, the general fund, and the budgetary comparisons for the general fund of Vermejo Conservancy District (the District), as of and for the years ended June 30, 2013 and 2012, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 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, 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 opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Vermejo Conservancy District as of June 30, 2013 and 2012, and the respective changes in financial position and the respective budgetary comparisons for the general fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 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 standard generally accepted in the United State 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 December 2, 2013 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.

Robert L. Mantz, CPA, P.C.

Robert L. Mantz, CPA, P.C.
Raton, NM 87740
December 2, 2013

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

As management of the New Mexico Vermejo Conservancy District, we offer readers of the Vermejo Conservancy District's financial statements this narrative overview and analysis of the financial activities of the Vermejo Conservancy District for the fiscal year ended June 30, 2013. All amounts, unless otherwise indicated, are expressed in dollars.

FINANCIAL HIGHLIGHTS

The District's total net assets increased by \$103,595 in 2013 as compared to a \$10,148 decrease in the prior year.

As of the close of the current fiscal year, the District's governmental fund reported an ending fund balance of \$285,649 which was an increase of \$62,595 in comparison with the prior year.

The substantial majority of the District's long-term liabilities is comprised of a note due to the Bureau of Reclamation. Payments on this debt have been deferred until the Secretary of the Bureau of Reclamation determines that additional repayment is feasible.

The balance of the long-term liabilities is made up of one note due to the New Mexico Interstate Stream Commission. See the notes to the financial statements for additional data.

USING THIS ANNUAL REPORT

Management's Discussion and Analysis

This section includes information on the use of the annual report, and management's analysis of the financial position and results of operations for the District.

Government-Wide Financial Statements

The Government-Wide Financial Statements report information about the District as a whole using accounting methods similar to those used by private sector businesses. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The financial statements report the District's net assets and how they have changed.

Fund Financial Statements.

The Fund Financial Statements provide a more detailed look at the District's significant funds. The funds present sources and uses of liquid resources. This is the manner in which the financial plan (the budget) is typically developed. Funds are established for various purposes and the financial statement allows the demonstration of sources and uses and/or budgeting compliance associated, therewith.

Budgetary Comparisons

GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules should present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis. As required by the Office of the State Auditor under 2NMAC2.2, the budgetary comparison statement is presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 28 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of New Assets: Below is a summary of the District's net assets for the fiscal years ending June 30, 2013 and 2012. There have been some significant changes to assets, liabilities and net assets as compared to the prior year. See page 8 for a more detailed look at the Statement of Net Assets.

VERMEJO CONSERVANCY DISTRICT

Net Assets
Governmental Activities
2013 **2012**

Current Assets	290,521	236,524
Capital Assets (Net)	2,820,372	2,786,581
Total Assets	<u>3,110,893</u>	<u>3,023,105</u>
Long-term Liabilities Outstanding	2,037,843	2,045,232
Other Liabilities	12,261	20,679
Total Liabilities	<u>2,050,104</u>	<u>2,065,911</u>
Net Assets:		
Invested in Capital Assets	775,140	734,140
Restricted	-	-
Unrestricted	285,649	223,054
Total Net Assets	<u>1,060,789</u>	<u>957,194</u>

Statement of Activities: The following represents the revenues and expenses for fiscal years 2013 and 2012. See page 9 for a more detailed look at the Statement of Activities.

VERMEJO CONSERVANCY DISTRICT

Changes in Net Assets
Governmental Activities
2013 **2012**

Revenues:		
Program Revenues	4,559	3,514
General Revenues	232,839	138,280
Total Revenues	<u>237,398</u>	<u>141,794</u>
Expenses:		
District Operations	133,803	151,942
Change in Net Assets	103,595	(10,148)
Net Assets – Beginning	957,194	967,342
Net Assets - Ending	<u>1,060,789</u>	<u>957,194</u>

FUND FINANCIAL ANALYSIS

Governmental Funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As of year-end, the governmental fund (the General Fund) reported a fund balance of \$285,649.

The District's only fund is the General Fund. This fund realized an increase in its fund balance from the prior year by about \$62,595. The General fund revenues increased by about \$95,604, because of grants received and increases in the 2013 leases. Expenditures increased significantly from the prior year because of the purchase of equipment and improvements to the dikes. The 2013 payroll costs decreased about \$1,006 because of a reduction in time. Payroll taxes decreased by about \$72 because of the reduction of payroll.

GENERAL FUND BUDGETARY HIGHLIGHTS

In total, there were major difference between the original budget and the final amended budget because of a new grant. During the year, however, actual revenues were less than budgetary estimates and actual expenditures were less than budgetary estimates.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The District's investment in capital assets for its governmental activities as of June 30, 2013, amounted to \$2,820,372 (net of accumulated depreciation). This investment in capital assets consists of equipment, lakes, ditches and improvements.

Additional information on the District's capital assets can be found in Note 4B on page 26 of this report.

Long-Term Debt: At the end of the current fiscal year, the District had total long-term debt outstanding of \$2,045,232, including the current portion due within the next twelve months of \$7,389.

The District's total long-term debt decreased by \$7,209, which was the direct result of a payment on a note principal during the year.

Additional information on the District's long-term debt can be found in Note 4C on pages 27 and 28 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The District has decreased its assessments from a \$4.23 mill levy in 2013 to a \$3.90 mill levy in 2014. The anticipated budget expenditures increased from \$215,670 in 2013 to \$221,770 in 2014.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Vermejo Conservancy District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vermejo Conservancy, PO Box 292, Maxwell, New Mexico 87728.

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2013 and 2012**

	2,013	2,012
ASSETS		
Current Assets:		
Cash	240,185	181,933
Class "A" Assessments Receivable	39,624	44,251
Class "B" Assessments Receivable	3,066	2,926
Accrued Interest Receivable	105	87
Prepaid Insurance	7,518	7,281
Prepaid Expense	23	46
Total Current Assets	290,521	236,524
Noncurrent Assets		
Capital Assets	3,063,339	3,007,255
Less: Accumulated Depreciation	(242,967)	(220,674)
Net Capital Assets	2,820,372	2,786,581
Total Assets	3,110,893	3,023,105
LIABILITIES		
Current Liabilities		
Accounts Payable	1,680	5,570
Unearned Revenues	2,818	7,645
Payroll Taxes Payable	374	255
Note Payable - Current Portion	7,389	7,209
Total Current Liabilities	12,261	20,679
Long-term Liabilities:		
Notes Payable	2,045,232	2,052,441
Less: Current Portion from Above	(7,389)	(7,209)
Total Long-term Liabilities	2,037,843	2,045,232
Total Liabilities	2,050,104	2,065,911
NET POSITION		
Net Investment in Capital Assets	775,140	734,140
Unrestricted	285,649	223,054
Total Net Position	1,060,789	957,194
Total Liabilities and Net Position	3,110,893	3,023,105

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE STATEMENT OF ACTIVITIES
For The Years Ended June 30, 2013 and 2012**

	2,013	2,012
Expenses		
District Operations		
Salaries	58,052	59,058
Payroll Taxes	4,493	4,565
Advertising	-	1,031
Auditing Fees	4,425	4,318
Bank Charges	46	65
Capital Outlay	786	714
Contract Labor	-	4,327
County Treasurer's Fees	162	217
Depreciation Expense	22,293	21,558
Dues and Subscriptions	60	60
Equipment Rental	-	-
Equipment Repairs and Supplies	9,598	11,075
Gas and Oil	12,435	17,273
Insurance	13,373	15,640
Interest Expense	1,360	1,536
Irrigation Expense	-	-
Legal Fees	190	2,502
Miscellaneous Expense	1,506	1,038
Office Printing	2	146
Office Postage	40	459
Office Supplies	616	1,386
Telephone	752	1,029
Travel	587	802
Utilities	3,027	3,143
Total District Operations	133,803	151,942
Program Revenues		
Charges for Service		
Water Charges	4,559	3,344
Canal Assessments	-	170
Total Program Revenues	4,559	3,514
Changes in Net Assets		
Net (Expense) Revenue	(129,244)	(148,428)
General Revenues		
Class "A" Assessments	101,187	92,765
Class "B" Assessments	16,203	21,705
Grants	50,000	-
Lease and Rental Income	50,631	19,331
Equipment Rental	485	385
Sale of Assets	3,220	-
Unrestricted Interest Income	3,884	1,528
Miscellaneous Income	7,229	2,566
Total General Revenues	232,839	138,280
Changes in Net Position	103,595	(10,148)
Net Position - Beginning	957,194	967,342
Net Position - Ending	1,060,789	957,194

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013 and 2012**

	2,013	2,012
ASSETS		
Cash	240,185	181,933
Class "A" Assessments Receivable	39,624	44,251
Class "B" Assessments Receivable	3,066	2,926
Accrued Interest Receivable	105	87
Prepaid Insurance	7,518	7,281
Prepaid Expenses	23	46
Total Assets	290,521	236,524
 LIABILITIES		
Accounts Payable	1,680	5,570
Unearned Revenues	2,818	7,645
Payroll Taxes Payable	374	255
Total Liabilities	4,872	13,470
 FUND BALANCE		
Unreserved		
Unassigned Balance	285,649	223,054
Total Fund Balance	285,649	223,054
Total Liabilities and Fund Balance	290,521	236,524

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
June 30, 2013 and 2012**

	2013	2012
Total Fund Balances for the Governmental Funds	285,649	223,054
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land, land improvements, buildings and equipment	3,063,339	3,007,255
Accumulated depreciation	(242,967)	(220,674)
Total capital assets	2,820,372	2,786,581
Some liabilities are not due and payable in the current Period and therefore are not reported in the funds. Those liabilities consist of:		
Notes payable	(2,045,232)	(2,052,441)
Total Net Position of Governmental Activities	1,060,789	957,194

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Years Ended June 30, 2013 and 2012**

REVENUES	<u>2,013</u>	<u>2,012</u>
Class "A" Assessments	101,187	92,765
Class "B" Assessments	16,203	21,705
Water Charges	4,559	3,344
Canal Assessments	-	170
Lease and Rental Income	50,631	19,331
Equipment Rental	485	385
Grants	50,000	
Sale of Assets	3,220	-
Investment Interest Income	576	597
Interest on Account	3,308	931
Miscellaneous Income	7,229	2,566
Total Revenues	<u>237,398</u>	<u>141,794</u>
 EXPENDITURES		
Current:		
District Operations:		
Salaries	58,052	59,058
Payroll Taxes	4,493	4,565
Advertising	-	1,031
Auditing Fees	4,425	4,318
Bank Fees	46	65
Contract Labor	-	4,327
County Treasurer's Fees	162	217
Dues and Subscriptions	60	60
Equipment Repairs and Supplies	9,598	11,075
Gas and Oil	12,435	17,273
Insurance	13,373	15,640
Legal Fees	190	2,502
Miscellaneous Expense	1,506	1,039
Office Printing	2	146
Office Postage	40	459
Office Supplies	616	1,386
Telephone	752	1,029
Travel	587	802
Utilities	3,027	3,143
Capital Outlay	56,870	714
Debt Service		
Principal	7,209	7,033
Interest	1,360	1,536
Total Expenditures	<u>174,803</u>	<u>137,418</u>
 Net Changes in Fund Balances	 62,595	 4,376
FUND BALANCE AT Beginning of Year	<u>223,054</u>	<u>218,678</u>
FUND BALANCE AT End of Year	<u>285,649</u>	<u>223,054</u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF
ACTIVITIES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2013 and 2012**

	2013	2012
Net Change in Fund Balances – Governmental Funds	62,595	4,376
Amounts reported for governmental activities in the statement of activities are different because:		
Proceeds from the sale of assets are reported for Governmental funds whereas gain or loss on the sale of the assets is reported for governmental activities:		
Basis of equipment sold	-	-
	62,595	4,376
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	56,084	-
Depreciation expense	(22,293)	(21,558)
Excess of capital outlay over depreciation expense	33,791	(21,558)
Debt service – principal payments	7,209	7,033
Adjustment for Rounding	-	1
Change in Net Position of Governmental Activities	103,595	(10,148)

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE BUDGETARY COMPARISON STATEMENT (Non-GAAP Basis)
GENERAL FUND
For the Years Ended June 30, 2013 and 2012**

	2013			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Budgetary	Final Budget
			Basis	Favorable (Unfavorable)
REVENUES				
Class "A" Assessments	103,628	103,628	101,187	(2,441)
Class "B" Assessments	25,907	25,907	16,064	(9,843)
Water Charges	43,178	43,178	4,559	(38,619)
Canal Assessments	127	127		(127)
Pasture and Lake Lease	12,630	12,630	47,631	35,001
Rental Income	3,000	3,000	3,000	-
Rental - Equipment	-	-	485	485
Grants	-	-	50,000	50,000
Sale of Assets	-	-		-
Investment Interest	1,200	1,200	559	(641)
Interest on Account	-	-	3,308	3,308
Miscellaneous Income	1,000	26,000	10,448	(15,552)
Total Revenues and Sources	<u>190,670</u>	<u>215,670</u>	<u>237,241</u>	<u>21,571</u>
 Budgeted Cash Balance	 -	 -		
 Total Revenues and Cash	 <u>190,670</u>	 <u>215,670</u>		
 EXPENDITURES				
Current:				
District Operations:				
Salaries	85,000	85,000	58,052	26,948
Payroll Taxes			4,535	(4,535)
Advertising				-
Auditing Fees	4,600	4,600	4,425	175
Contract Labor				-
County Treasurer's Fees			162	(162)
Dues & Subscriptions			60	(60)
Equipment Repairs and Supplies	15,000	15,000	10,978	4,022
Gas and Oil	33,000	33,000	16,165	16,835
Insurance	16,000	16,000	13,608	2,392
Legal Fess	5,000	5,000	190	4,810
Miscellaneous Expense	10,000	35,000	29,364	5,636
Office Supplies	2,000	2,000	616	1,384
Office Postage	-		34	(34)
Office Printing	-			-
Telephone	1,000	1,000	805	195
Travel	1,500	1,500	572	928
Utilities	4,000	4,000	3,030	970
Capital Outlay	5,000	5,000	27,786	(22,786)
Debt Service:				
Principal	7,210	7,210	7,209	1
Interest	1,360	1,360	1,360	-
 Total Expenditures and Uses	 <u>190,670</u>	 <u>215,670</u>	 <u>178,951</u>	 <u>36,719</u>

The accompany notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE BUDGETARY COMPARISON STATEMENT (Non-GAAP Basis)
GENERAL FUND
For the Years Ended June 30, 2013 and 2012**

	2012			
	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>	Budgetary Basis	Favorable (Unfavorable)
REVENUES				
Class "A" Assessments	97,460	97,460	88,826	(8,634)
Class "B" Assessments	24,365	24,365	19,118	(5,247)
Water Charges	40,608	40,608	3,344	(37,264)
Canal Assessments	127	127	170	43
Pasture and Lake Lease	12,630	12,630	16,331	3,701
Rental Income	3,000	3,000	3,000	-
Rental - Equipment	-	-	385	385
Sale of Assets	-	-	-	-
Investment Interest	1,200	1,200	581	(619)
Interest on Account	-	-	931	931
Miscellaneous Income	1,000	1,000	4,034	3,034
Total Revenues and Sources	<u>180,390</u>	<u>180,390</u>	<u>136,720</u>	<u>(43,670)</u>
 Budgeted Cash Balance	 <u>15,000</u>	 <u>15,000</u>		
 Total Revenues and Cash	 <u>195,390</u>	 <u>195,390</u>		
 EXPENDITURES				
Current:				
District Operations:				
Salaries	95,000	94,000	59,058	34,942
Payroll Taxes	5,000	5,000	4,810	190
Advertising	-	-	1,076	(1,076)
Auditing Fees	4,320	4,320	4,318	2
Contract Labor	-	-	4,544	(4,544)
County Treasurer's Fees	-	-	217	(217)
Dues & Subscriptions	-	-	60	(60)
Equipment Repairs and Supplies	20,000	20,000	9,806	10,194
Gas and Oil	18,000	18,000	15,541	2,459
Insurance	16,500	16,500	15,165	1,335
Legal Fess	5,000	5,000	2,502	2,498
Miscellaneous Expense	10,000	10,000	1,277	8,723
Office Supplies	1,500	2,500	1,459	1,041
Office Postage	-	-	459	(459)
Office Printing	-	-	146	(146)
Telephone	1,000	1,000	959	41
Travel	2,000	2,000	802	1,198
Utilities	3,500	3,500	3,164	336
Capital Outlay	5,000	5,000	714	4,286
Debt Service:				
Principal	7,034	7,034	7,033	1
Interest	1,536	1,536	1,536	-
 Total Expenditures and Uses	 <u>195,390</u>	 <u>195,390</u>	 <u>134,646</u>	 <u>60,744</u>

The accompany notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
COMPARATIVE BUDGETARY COMPARISON STATEMENT
BUDGET-TO-GAAP RECONCILIATION
GENERAL FUND
For The Years Ended June 30, 2013 and 2012**

	2013	2012
Sources/Inflows of Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement	237,241	136,720
Revenues measurable and accounted for this year, but received in the next year.	42,795	47,264
Revenues measurable and accounted for last year, but Received in the current year.	(47,264)	(35,005)
Unearned revenues received last year and earned this year.	7,645	3,700
Unearned revenues received this year but will not be earned until next year.	(2,818)	(7,645)
Other Revenues – Increase (Decrease)	(201)	(2,997)
Net Increase (Decrease) in Government Reimbursements	-	(243)
Adjustment for Rounding	-	-
Total revenues and other financing sources as reported in the statement of revenues expenditures and changes in fund balance-governmental	237,398	141,794
Uses/Outflows of Resources:		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	178,951	134,646
Expenditures incurred this year, but not paid until next year.	2,054	5,825
Expenditures incurred last year but paid this year.	(5,825)	(3,240)
Increase (Decrease) in prepaid expense accrual	214	429
Other Increases (Decreases)	(591)	-
Net (Increase) Decrease in Government Reimbursements	-	(243)
Adjustment for Rounding	-	1
Total expenditures and other financing uses as reported in the statement of revenues, expenditures and changes in fund balance - governmental funds	174,803	137,418

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

INDEX

- NOTE 1. FUNCTION OF THE ENTITY**
- NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
- A. Reporting Entity
 - B. Basic Financial Statements – Government-Wide Statements
 - C. Basic Financial Statements – Fund Financial Statements
 - D. Basis of Accounting
 - E. Use of Estimates
 - F. Encumbrances
 - G. Financial Statement Amounts
- NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**
- A. Budgets and Budgetary Accounting
- NOTE 4. DETAIL NOTES ON ACCOUNTS AND TRANSACTION**
- Classes**
- A. Cash
 - B. Capital Assets
 - C. Long –Term Liabilities
 - D. Deferred Revenue
- NOTE 5. OTHER NOTES**
- A. Risk Management
 - B. Retirement and Benefit Plans

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1. FUNCTION OF THE ENTITY

The Vermejo Conservancy District (the District) was created by the Conservancy Act of New Mexico, Ch. 77-2701 through 77-2929 and the Conservancy District Reclamation Contract Act, Ch. 77-3101 through 77-3124, New Mexico Statutes annotated, 1941 Compilation, as amended. The Board appoints qualified personnel to guide and direct the operations of the District, and approves all contracts and the annual budget. The purpose of the agency is to operate and maintain the irrigation system within the Vermejo Conservancy.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASP) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation based on the size of the government.

In June, 2001, the GASB unanimously approved Statement No. 37, *Basic Financial Statements and management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Statement 37 clarifies and modifies Statements 34 and should be implemented simultaneously with Statement 34. Statement 38 modifies, establishes and rescinds certain financial statement disclosure requirements.

The District implemented the provisions of GASB Statement No. 34, 37 and 38 effective July 1, 2003. As part of this Statement, there is a new reporting requirement regarding the government's infrastructure (roads, bridges, etc.). The District's infrastructure consists of earthen canals and reservoirs. Since these two items are considered land, no depreciation has been applied to them as shown in Note 4 of the footnotes. Maintenance of the infrastructure is included in the budget. In addition, the District does not have any fiduciary funds.

The District implemented the statutory change in the capitalization threshold of capital assets from \$1,000 to \$5,000, effective June 17, 2005. However, capital asset inventory items acquired prior to July 1, 2005, that do not meet the new capitalization threshold, remain on the inventory list and continue to be depreciated. See Note G.3.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. REPORTING ENTITY

The District is special-purpose government created pursuant to statute and is comprised of an elected Board of Directors. The officers of the District are elected bi-annually. The District is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation and these financial statements include all funds and activities over which the District officers have oversight responsibility. The officers of the District have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. The District does not have any component units.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT- WIDE STATEMENTS

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The new reporting model focus is on either the District as a whole, or major individual funds (within the fund financial statements). The District is a single-program government that engages in only governmental activities and has no component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide Statement of Net Assets, the governmental activities are presented on the full accrual basis, economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets (of which none are present); and unrestricted net assets.

The government-wide Statement of Activities reports the gross and net cost of the District's function. The function is also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. The District includes only one function (district operations), and has no operating or capital grants. The District does not have an internal service fund, but all internal activities have been eliminated to avoid "doubling up" revenues and expenses.

The net costs (by function) are normally covered by program revenue (special assessments).

This government-wide measurement focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the District are reported in one fund in the fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The District does not have any proprietary or fiduciary funds.

The single fund of the District is described below:

General Fund – The General Fund is the general operating fund for the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The governmental fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the District's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the government-wide presentation.

GASB Statement No. 34 eliminated the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide Statement of Net Assets.

Generally, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental activities in the government-wide financial statement are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Property taxes (water assessments) are recognized as revenues in the year which they are levied.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

D. BASIS OF ACCOUNTING – Continued

Modified accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The district considers revenues to be available if they are collected within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Those revenues susceptible to accrual include water rights assessments. In accordance with GASB Statement 33, estimated assessments that are not available are recorded as both accounts receivable and deferred revenue. All other revenues are recognized when they are received and are not susceptible to accrual, because they are usually not measurable until payment is actually received.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

G. FINANCIAL STATEMENT AMOUNTS

1. Cash

For the purpose of the Statement of Net Assets, “cash” includes all petty cash, demand accounts, savings accounts and certificates of deposit of the District.

2. Assessments Receivable

Assessments receivable consists of revenue earned from assessments for water rights. The District has the option of collecting delinquent assessments by filing a lien against properties with delinquent accounts or filing a civil action against the delinquent property owners. Management had determined that assessments are fully collectible; accordingly no allowance for doubtful accounts has been recorded.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

G. FINANCIAL STATEMENT AMOUNTS – Continued

2. Assessments Receivable - Continued

The Colfax County Treasurer bills and collects the general property tax levy (per share water assessments). Property taxes (water assessments) attach as an enforceable lien on January 1 of each year. Collections are remitted to the District monthly. As of June 30, 2013, all uncollectible taxes are considered delinquent. However, all property taxes are considered collectable.

Class A assessments are billed annually to all property owners within the District. Rates are set annually by the board and are payable semi-annually on January 1 and July 1.

Class B assessments are billed annually to all property owners within the District. Rates are set annually by the Board and are billed and collected by the Colfax County Treasurer. Class B assessments are payable in two installments on November 1 and April 1.

3. Capital Assets

Capital Assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. For capital assets acquired after June 17, 2005, the District increased the capitalization threshold from \$1,000 to \$5,000. Contributed assets are reported at fair market value as of the date received. Additions, improvements, computer software 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. Depreciation on all assets is provided on the straight-line basis with no salvage value. The estimated useful life for the distribution system is twenty to fifty years, and the estimated useful life of equipment is five to ten years.

GASB Statement No. 34 requires the District to report and depreciate infrastructure assets. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. Other than the distribution system, the District does not own any infrastructure assets.

4. Compensated Absences

The District does not compensate employee absences in excess of the current year accruals. Employees are allowed up to 80 hours of paid vacation annually. Employees earn 80 hours of sick leave annually up to a cumulative 240 hours. Unused vacation time and unused sick leave are not monetarily compensated in excess of the current year amount; therefore, no accrual is required for compensated absences at year end.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

G. FINANCIAL STATEMENT AMOUNTS – Continued

5. Equity Classifications

Government – wide Statements.

Equity is classified as net assets. Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent the historical costs of assets or fair value on date of receipt less accumulated depreciation on those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors. Unrestricted net assets are all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” It is the District’s policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved with the unreserved further split between designated and undesignated. Reservations of fund balance are created to either satisfy legal covenants that require that a portion of the fund balance be segregated or identify the portion of the fund balance that is not appropriated for future expenditure.

6. Revenues and Expenditures

For class A assessments for the year ended June 30, 2013, the District assessed property owners at the rate of \$14.02 per share. For Class B assessments, the mill levy increased from \$4.04 in 2012 to \$4.23 in 2013. Substantially, all governmental fund revenues are accrued. Assessments are included as program revenues in the accompanying financial statements.

Expenditures are recognized when the related fund liability is incurred. The exception is that principal on long-term debt is recognized when due.

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a government unit, the District is subject to various laws and contractual regulations. An analysis of the District’s compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. BUDGETS AND BUDGETARY ACCOUNTING

Irrigation Districts follow procedures that are promulgated by the Department of Finance and Administration, Local Government Division. Those procedures are as follows:

1. Prior to July 1, the Chairman submits to the Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. After the Board approves the proposed budget, it is then submitted to the Local Government Division for review and certification.
3. Upon certification the budget becomes a legally binding document which does not allow total expenditures in any fund to exceed the amount budgeted. Appropriations lapse at year-end.
4. The Board is authorized to make budget revisions with the Local Government Division's approval.
5. Formal budgetary integration is employed as a management control device during the year.

Budgets are not adopted on a basis consistent with generally accepted accounting principles (GAAP). The budgets are adopted on the non-GAAP basis of cash receipts and disbursements; consequently, certain revenues and the related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. Budgetary comparisons presented in this report are on this non-GAAP Budgetary basis.

The reconciliation of governmental fund revenues and expenses to budget basis revenue and expenses is presented in the Budgetary Comparison Statement – Budget – to – GAAP Reconciliation.

NOTE 4. DETAIL NOTES ON ACCOUNTS AND TRANSACTION CLASSES

A. CASH

Cash deposits are reported at cost, which reasonably estimates fair value. At year-end, the financial statement balances of the bank accounts and certificates of deposit were \$240,155 (not including petty cash of \$30) while the bank balances of the bank accounts and certificate of deposits were \$240,155.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4. DETAIL NOTES ON ACCOUNTS AND TRANSACTION CLASSES

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013, the District's accounts were 100% covered by FDIC insurance and no collateral was pledged.

The following schedule presents cash on deposit with banks and the collateral pledged by each institution in accordance with Section 6-10-16, NMSA, 1978 Compilation:

	Type	Amount
International Bank of Raton, 200 S 2nd, Raton, NM 87740:		
Financial statement balance	Checking	\$ 1,054
Reconciling items		-0-
Total balance per bank		<u>1,054</u>
Less: Deposits covered by FDIC		<u>1,054</u>
Total		<u>\$ -0-</u>
International Bank of Raton, 200 S 2nd St., Raton, NM 87740:		
Financial statement balance	Savings	\$165,525
Reconciling items		-0-
Total balance per bank		<u>165,525</u>
Less: Deposits covered by FDIC		<u>165,525</u>
Total		<u>\$ -0-</u>
International Bank of Raton, 200 S 2nd St., Raton, NM 87740:		
Financial statement balance	Savings	\$ 6,238
Reconciling items		-0-
Total balance per bank		<u>6,238</u>
Less: Deposits covered by FDIC		<u>6,238</u>
Total		<u>\$ -0-</u>
The First National Bank of Trinidad, 1247 S 2nd St., Raton, NM 87740:		
Financial statement balance	CD	\$ 26,188
Reconciling items		-0-
Total balance per bank		<u>26,188</u>
Less: Deposits covered by FDIC		<u>26,188</u>
Total		<u>\$ -0-</u>
The First National Bank of Trinidad, 1247 S 2nd St., Raton, NM 87740:		
Financial statement balance	CD	\$ 25,623
Reconciling items		-0-
Total balance per bank		<u>25,623</u>
Less: Deposits covered by FDIC		<u>25,623</u>
Total		<u>\$ -0-</u>

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. CASH - Continued

The First National Bank of Trinidad, 1247 S 2nd St., Raton, NM 87740:

Financial statement balance	Savings	\$ 15,527
Reconciling items		-0-
Total balance per bank		<u>15,527</u>
Less: Deposits covered by FDIC		<u>15,527</u>
Total		<u>\$ -0-</u>

Total Summary of Cash:

Financial statement balance	\$240,155
Reconciling items	-0-
Total balance per bank	<u>240,155</u>
Less: Deposits covered by FDIC	<u>240,155</u>
Total	<u>\$ -0-</u>

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance July 1,2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30,2013</u>
Capital assets not being Depreciated:				
Water rights, canals, Reservoirs & land	<u>\$2,678,723</u>	<u>\$ 29,084</u>	<u>\$ -0-</u>	<u>\$2,707,807</u>
Capital assets being depreciated:				
Building & fences	21,302	-0-	-0-	21,302
Equipment	<u>307,230</u>	<u>27,000</u>	<u>-0-</u>	<u>334,230</u>
	<u>328,532</u>	<u>27,000</u>	<u>-0-</u>	<u>355,532</u>
Less: Accumulated depreciation				
Building & fences	14,260	391	-0-	14,651
Equipment	<u>206,414</u>	<u>21,902</u>	<u>-0-</u>	<u>228,316</u>
	<u>220,674</u>	<u>22,293</u>	<u>-0-</u>	<u>242,967</u>
Net capital assets being depreciated	<u>107,858</u>	<u>4,707</u>	<u>-0-</u>	<u>112,565</u>
Net capital assets	<u>\$ 2,786,581</u>	<u>33,791</u>	<u>\$ -0-</u>	<u>\$2,820,372</u>

Depreciation expense of \$22,293 was charged to the district operations function of governmental activities.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

C. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2013:

	Long-Term Debt Payable At June 30, 2012	New Obligations Incurred	Payments Made on Long-Term Debt	Long-Term Debt Payable At June 30, 2013	Due Within One Year
Bureau of Reclamation	\$1,998,031	\$ -0-	\$ -0-	\$1,998,031	\$ -0-
Interstate Stream Commission (1 notes)	54,410	-0-	7,209	47,201	7,389
Total	\$2,052,441	-0-	\$7,209	\$2,045,232	\$ 7,389

Notes Payable

\$2,065,100 note payable to the United States Department of Interior, Bureau of Reclamation, Repayment Contract #178-458, August 7, 1952. Public Law 96-550, December 19, 1980, Title IV, Section 401 provided deferment of payments on all repayment obligations until such time as a Secretary determines additional repayment to be feasible \$ 1,998,031

\$75,000 note payable to New Mexico Interstate Stream Commission on 10/10/08 in annual installments of \$8,569, including interest at 2.5% 47,201

Total \$2,045,232

Current year interest expense included as a direct function expense with district operations was \$1,360.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

C. LONG-TERM LIABILITIES – Continued

The annual requirement to amortize the principal of all debt outstanding as of June 30, 2013, is as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	7,389	1,180
2015	7,574	995
2016	7,764	806
2017	7,958	612
2018	8,157	413
2019	8,359	210
Amounts with no stated maturity	1,998,031	-0-
Total	<u>\$ 2,045,232</u>	<u>\$ 4,216</u>

D. Deferred Revenues

The District received water delivery revenues in advance of June 30, 2013 in the amount of \$2,818. The revenues were received before they were earned. The unearned revenues will be applied to the member's account in the following fiscal year.

NOTE 5. OTHER NOTES

A. RISK MANAGEMENT

The District covers its insurance needs through various insurance policies. The coverage includes business and personal property, commercial general liability, non-owned and hired automobiles, worker's compensation, and a notary bond. The limits of coverage depend on the items being insured. The maximum coverage is generally limited to \$500,000. The premiums paid on the policies during the year were \$13,608. If the District's losses exceed its premiums, there is no supplemental assessment; while on the other hand, if the District's losses are low, they will not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier.

B. RETIREMENT AND BENEFIT PLANS

The District does not currently offer to any employees any pension, deferred compensation plan, or health benefit plan.

C. PENDING LITIGATION

There was pending litigation on June 30, 2010, where a member claimed to have been damaged by the District and claimed that the District confiscated twenty (20) Class A shares of Water. This litigation has been resolved. Items required by the court decision are being processed. There was no pending litigation as of June 30, 2013.

OTHER REPORTS

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

Independent Auditor's Report

Mr. Hector H. Balderas,
New Mexico State Auditor
And the
Members of the Board of Directors
Vermejo Conservancy District
Maxwell, New Mexico

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, the general fund, and the budgetary comparisons for the general fund of the Vermejo Conservancy District as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Vermejo Conservancy District's basic financial statements and related budgetary comparisons of Vermejo Conservancy District presented as supplemental information, and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Vermejo Conservancy District's internal control over financial reporting to determine our 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 of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Vermejo Conservancy 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 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 is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 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 a deficiency in internal control, described in the accompanying *schedule of findings, recommendations, and responses*, that we consider to be a significant deficiency. The item is described in the schedule as 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermejo Conservancy 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Responses to Findings

The District's response to the findings identified in our audit are described in the accompanying *Schedule of Findings, Recommendations, and Responses*. The District's 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 result of that testing, and not to provide an opinion on the effectiveness of the District'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.

Robert L. Mantz, CPA, P.C.

Robert L. Mantz, CPA, P.C.
Raton, NM
December 2, 2013

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
June 30, 2013 and 2012**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2012-1. "Other" - Class "B" Assessments Reconciliation with the County - Resolved

SUMMARY SCHEDULE OF CURRENT YEAR AUDIT FINDINGS

2013-1. "Significant Deficiency" - Grant to Purchase Equipment was not Booked

Condition: A \$25,000 grant from the New Mexico Department of Transportation was not included in the books of the District. The District was given the grant to purchase surplus equipment. The District purchased a 1981 International Bulldozer and Dozer Blade. The cost of the purchase was \$27,000. The District had to pay \$2,000.

Criteria: The District has a responsibility to record all transactions in the books of the District in accordance with generally accepted accounting standards. The listing of the asset in the books of the District ensures a complete and accurate reporting.

Effect: By not including the grant in the books of the District, revenues and expenditures were understated by \$25,000. However, because the revenue and the expense off set each other, net income was not impacted.

Cause: During the year the books of the District are maintained on a cash basis. Because the grant was a credit and was not cash, the recording of the non-cash grant was an oversight.

Recommendation: In the future all grants must be recorded in the books, even when cash is not received.

Agency Response: This transaction was an unusual situation and does not happen very often. The District will include all transactions in the books of the District in the future. Even when there is a netted amount and cash is not received. The \$25,000 was used to purchase the bulldozer. The bulldozer was listed on the District's equipment list at the full value of \$27,000. The bulldozer was insured for the full value of \$27,000.

**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
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FINANCIAL STATEMENT PREPARATION

In accordance with *Government Auditing Standards*, drafting the financial statements is considered to be technical assistance that would not impair independence if certain requirements are met. Although, it would be preferable and desirable for the District to prepare its own GAAP-based financial statements, it is felt that the District's personnel have neither the time nor the expertise to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes that were included in the annual audit report. Since, the District's management assumed the responsibility for the content of the financial report, and since, the District has the necessary accounting expertise to prevent, detect and correct a potential material misstatement in the financial statements, assisting the District with their financial statement preparation would not result in the conclusion that the District has a control deficiency.

The logo consists of the letters 'CPA' in a bold, sans-serif font, enclosed within a circular border. This circle is part of a larger graphic element on the left side of the page, which includes several vertical lines of varying heights and a horizontal line that intersects the circle.

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**STATE OF NEW MEXICO
VERMEJO CONSERVANCY DISTRICT
EXIT CONFERENCE
June 30, 2013 and 2012**

EXIT CONFERENCE

On December 2, 2013, an exit conference was held at the District's office. Present was President Roger Kuchan, General Manager Steve Hicks, Office Manager Telena Shubert, Assistant Office Manager Shawana Lindsley, and auditor Robert L. Mantz, CPA. The contents of this report were discussed with the participants. The meeting was not open to the public.

Robert L. Mantz, CPA, P.C.

Robert L. Mantz, CPA, P.C.
Raton, NM
December 2, 2013

