

**State of New Mexico
Carlsbad Irrigation District**

ANNUAL FINANCIAL REPORT

October 31, 2017



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Introductory Section

State of New Mexico
Carlsbad Irrigation District
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October 31, 2017

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Carlsbad Irrigation District
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**State of New Mexico
Carlsbad Irrigation District
Official Roster
October 31, 2017**

Board of Directors

<u>Name</u>	<u>Title</u>
Gary Walterscheid	President
Coley Burgess	Vice President
Charles H. Jurva	Board Member/Director
Mary Barnhart	Board Member/Director
Guadalupe Carrasco	Board Member/ Director

District Officials

Dale Ballard	Manager
Robert Boatman	Water Master

Report

INDEPENDENT AUDITOR'S REPORT

Wayne Johnson
New Mexico State Auditor
To the President and Board of Directors
Carlsbad Irrigation District
Carlsbad, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison of the general fund of the Carlsbad Irrigation District ("the District"), as of and for the year ended October 31, 2017, 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 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 District'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 District'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 and each major fund of Carlsbad Irrigation District, as of October 31, 2017, and the respective changes in financial position 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 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United State of America required Schedule of Proportionate Share of Net Pension Liability of PERA Division, Schedule of Contributions and the Notes to the Required Supplementary Information on pages 52 through 54 to 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 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and Supporting Schedule of Deposit and Investment Accounts and Schedule of Collateral Pledged by Depository for Public Funds required by section 2.2.2 NMAC are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

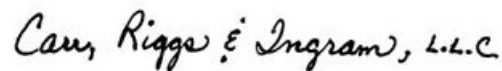
The Supporting Schedule of Deposit and Investment Accounts and Schedule of Collateral Pledged by Depository for Public Funds required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the

Supporting Schedule of Deposit and Investment Accounts and Schedule of Collateral Pledged by Depository for Public Funds required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2018 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.



Carr, Riggs & Ingram, LLC
Carlsbad, New Mexico
March 30, 2018

Financial Statements

State of New Mexico
Carlsbad Irrigation District
Statement of Net Position
October 31, 2017

	Governmental Activities
<hr/>	
Assets	
Current assets	
Cash and cash equivalents	\$ 1,903,135
Investments	400,000
Tax assessments receivable	100,740
Prepaid expenses	4,605
<hr/>	
Total current assets	2,408,480
<hr/>	
Noncurrent assets	
Restricted cash	118,295
Restricted investments	1,000,000
Capital assets	13,776,115
Less: accumulated depreciation	(7,896,749)
<hr/>	
Total noncurrent assets	6,997,661
<hr/>	
Deferred outflows of resources	
Change of assumptions	65,579
Differences between expected and actual experience	55,878
Net difference between projected and actual investment earnings	205,777
Employer contributions subsequent to the measurement date	61,377
<hr/>	
Total deferred outflows of resources	388,611
<hr/>	
Total assets and deferred outflows of resources	\$ 9,794,752
<hr/> <hr/>	

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

State of New Mexico
Carlsbad Irrigation District
Statement of Net Position (Continued)
October 31, 2017

	Governmental Activities
<hr/>	
Liabilities	
Current liabilities	
Accounts payable	\$ 985
Accrued payroll expenses	29,011
Accrued compensated absences	7,100
<hr/>	
Total current liabilities	37,096
<hr/>	
Noncurrent liabilities	
Accrued compensated absences	10,035
Net pension liability	1,118,365
<hr/>	
Total noncurrent liabilities	1,128,400
<hr/>	
Total liabilities	1,165,496
<hr/>	
Deferred inflows of resources	
Change of assumptions	186
Difference between expected and actual experience	10,915
Changes in proportion	91,686
<hr/>	
Total deferred inflows of resources	102,787
<hr/>	
Net position	
Net investment in capital assets	5,879,366
Restricted for:	
Special revenue	1,114,025
Unrestricted	1,533,078
<hr/>	
Total net position	8,526,469
<hr/>	
Total liabilities, deferred inflows or resources, and net position	\$ 9,794,752
<hr/>	

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

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State of New Mexico
Carlsbad Irrigation District
Statement of Activities
For the Year Ended October 31, 2017

	Governmental Activities
<hr/>	
Expenses	
Public works	\$ 2,508,116
<hr/>	
Total expenses	2,508,116
<hr/>	
Program revenues	
Licenses and fees	207,042
Federal operating grants	187,138
<hr/>	
Total program revenues	394,180
<hr/>	
Net program (expense)	(2,113,936)
<hr/>	
General revenues	
Tax assessments	2,171,184
Oil royalties and lease income	633,832
Investment income	22,946
Miscellaneous income	3,936
Proceeds from trade-in of capital assets	12,000
<hr/>	
Total general revenues	2,843,898
<hr/>	
Change in net position	729,962
<hr/>	
Net position - beginning	7,861,277
Net position - restatement (note 17)	(64,770)
<hr/>	
Net position - beginning , as restated	7,796,507
<hr/>	
Net position, ending	\$ 8,526,469
<hr/> <hr/>	

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

State of New Mexico
Carlsbad Irrigation District
Balance Sheet – Governmental Activities
For the Year Ended October 31, 2017

	General Fund	Special Revenue Funds
	Water Distribution Operations	Water Salvage
Assets		
Cash and cash equivalents	\$ 1,903,135	\$ 4,929
Investments	400,000	-
Tax assessments receivable	100,740	-
Prepaid expenses	4,605	-
Total assets	\$ 2,408,480	\$ 4,929
Liabilities, deferred inflows and fund balances		
Liabilities		
Accounts payable	\$ -	\$ -
Accrued payroll expenses	25,726	-
Total liabilities	25,726	-
Deferred inflows		
Unavailable revenue	67,620	-
Total deferred inflows	67,620	-
Fund balances		
Nonspendable for prepaid expenses	4,605	-
Spendable		
Restricted for:		
Water salvage program maintenance and operation	-	4,929
Rehabilitation of radial gates	-	-
Dam maintenance and operations	-	-
Wells maintenance and operation	-	-
Unassigned	2,310,529	-
Total fund balances	2,315,134	4,929
Total liabilities, deferred inflows, and fund balances	\$ 2,408,480	\$ 4,929

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

Special Revenue Funds

Ft. Sumner Dam		Brantley Dam		Seven Rivers Wells		Total	
\$	44,387	\$	430	\$	68,549	\$	2,021,430
	800,000		200,000		-		1,400,000
	-		-		-		100,740
	-		-		-		4,605
<hr/>							
\$	844,387	\$	200,430	\$	68,549	\$	3,526,775
<hr/>							
\$	-	\$	985	\$	-	\$	985
	-		3,285		-		29,011
	-		4,270		-		29,996
<hr/>							
	-		-		-		67,620
	-		-		-		67,620
<hr/>							
	-		-		-		4,605
	-		-		-		4,929
	844,387		-		-		844,387
	-		196,160		-		196,160
	-		-		68,549		68,549
	-		-		-		2,310,529
	844,387		196,160		68,549		3,429,159
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\$	844,387	\$	200,430	\$	68,549	\$	3,526,775
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The accompanying notes are an integral part of these financial statements.

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State of New Mexico
Carlsbad Irrigation District
Reconciliation of the Balance Sheet to the Statement of Net Position
October 31, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Fund balances - total governmental funds	\$	3,429,159
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		5,879,366
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in the funds:		
Deferred outflows of resources related to employer contributions subsequent to the measurement date		61,377
Deferred outflows of resources related to change of assumptions		65,579
Deferred outflows of resources related to difference between expected and actual experience		55,878
Deferred inflows of resources related to change of assumptions		(186)
Deferred inflows of resources related to difference between expected and actual experience		(10,915)
Deferred inflows of resources related to changes in proportion		(91,686)
Deferred outflows of resources related to the net difference between projected and actual investment earnings		205,777
Tax assessment receivables not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities		67,620
Certain liabilities, including the net pension liability and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued compensated absences		(17,135)
Net pension liability		(1,118,365)
Net position of governmental activities	\$	8,526,469

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

State of New Mexico
 Carlsbad Irrigation District

**Statement of Revenues, Expenditures, and Changes in Fund Balances –
 Governmental Funds
 For the Year Ended October 31, 2017**

	General Fund	Special Revenue Funds
	Water Distribution Operations	Water Salvage
Revenues		
Tax assessments	\$ 2,178,886	\$ -
Oil royalties and lease income	633,832	-
Licenses and fees	207,042	-
Federal operating grants	-	-
Investment income	18,080	-
Miscellaneous	3,936	-
Total revenues	3,041,776	-
Expenditures		
Current:		
Public works	1,910,977	-
Capital outlay	97,202	-
Total expenditures	2,008,179	-
Excess (deficiency) of revenues over expenditures	1,033,597	-
Other financing sources (uses)		
Proceeds from sale of capital assets	-	-
Transfers in	93,574	-
Transfers (out)	-	-
Total other financing sources (uses)	93,574	-
Net change in fund balance	1,127,171	-
Fund balance - beginning of year	1,252,733	4,929
Adjustment to beginning fund balance (see note 17)	(64,770)	-
Fund balance -beginning of year, as restated	1,187,963	4,929
Fund balance - end of year	\$ 2,315,134	\$ 4,929

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

Special Revenue Funds

Ft. Sumner Dam		Brantley Dam		Seven Rivers Wells		Total	
\$	-	\$	-	\$	-	\$	2,178,886
	-		-		-		633,832
	-		-		-		207,042
	-		182,023		5,115		187,138
	-		4,866		-		22,946
	-		-		-		3,936
	-		186,889		5,115		3,233,780
	3,121		298,419		788		2,213,305
	-		-		-		97,202
	3,121		298,419		788		2,310,507
	(3,121)		(111,530)		4,327		923,273
	-		-		-		-
	-		-		-		93,574
	(7,988)		(82,191)		(3,395)		(93,574)
	(7,988)		(82,191)		(3,395)		-
	(11,109)		(193,721)		932		923,273
	855,496		389,881		67,617		2,570,656
	-		-		-		(64,770)
	855,496		389,881		67,617		2,505,886
\$	844,387	\$	196,160	\$	68,549	\$	3,429,159

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

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State of New Mexico
Carlsbad Irrigation District

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended October 31, 2017**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	923,273
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital expenditures recorded in capital outlay		97,202
Depreciation expense		(234,651)

In the statement of activities, only the *gain* on sale of capital assets is reported, whereas, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of capital assets sold:

Loss from disposal of capital assets		(7,150)
Proceeds from trade-in of capital assets		12,000

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds:

Decrease in unavailable revenue		(7,702)
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Governmental funds report District pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:

District pension contributions		61,377
Pension expense		(115,798)

Expenses reported in the statement of activities that do require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Decrease in accrued compensated absences		1,411
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Change in net position of governmental activities	\$	729,962
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The accompanying notes are an integral part of these financial statements.

**State of New Mexico
Carlsbad Irrigation District
Water Distribution Operations General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget (Modified Accrual Basis) and Actual
For the Year Ended October 31, 2017**

	Budget Amounts		Actual	Variances
	Original	Final	(Modified Accrual Basis)	Favorable (Unfavorable)
Revenues				
Tax assessments	\$ 2,107,510	\$ 2,100,452	\$ 2,178,886	\$ 78,434
Oil royalties and lease income	-	-	633,832	633,832
Licenses and fees	44,217	258,018	207,042	(50,976)
Investment income	6,750	13,673	18,080	4,407
Miscellaneous	1,200	4,244	3,936	(308)
Total revenues	2,159,677	2,376,387	3,041,776	665,389
Expenditures				
Current:				
Public works	2,183,535	1,883,589	1,910,977	(27,388)
Capital outlay	64,642	424,225	97,202	327,023
Total expenditures	2,248,177	2,307,814	2,008,179	299,635
Excess (deficiency) of revenues over expenditures	(88,500)	68,573	1,033,597	965,024
Other financing sources (uses)				
Designated cash (budgeted increase in cash)	88,500	(68,573)	-	(68,573)
Transfers in	-	-	93,574	93,574
Transfers (out)	-	-	-	-
Total other financing sources	88,500	(68,573)	93,574	25,001
Net change in fund balances	-	-	1,127,171	1,127,171
Fund balance - beginning	-	-	1,252,733	1,252,733
Adjustment to beginning fund balance (see note 17)	-	-	(64,770)	-
Fund balance -beginning of year as restated	-	-	1,187,963	-
Fund balance - ending	\$ -	\$ -	\$ 2,315,134	\$ 2,315,134

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

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Carlsbad Irrigation District (the “District”) was organized on January 1, 1938, by agreement with the United States Bureau of Reclamation resulting in the transfer of rights, benefits, privileges, liabilities and project revenues of the irrigation system. The District is organized and acting under the laws of the State of New Mexico and in cooperation with the United States Government for the care, operation and maintenance of all irrigation and drainage works of the project.

The District was established as an agriculture irrigation district in cooperation with the United States Bureau of Reclamation. The District’s governing body operates with a five member board of directors elected from the landholders and water users within the boundaries of the District. The District is responsible for the operation and maintenance of the water distributions system and improvements of Ft. Sumner, Seven Rivers Wells, Brantley, and Avalon diversion dams, including the canal and drainage system and structures. The physical boundaries begin just below Avalon Dam extending to 4 miles southwest of Malaga, New Mexico and include all area between the Pecos River and the Canal. Currently, the District has 25,055 water righted acres available for irrigation.

The summary of significant accounting policies of the District is presented to assist in the understanding of the District’s financial statements. The financial statements and notes are the representation of the District’s management who is responsible for their integrity and objectivity. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

During the year ended October 31, 2017, the District adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (partial)*, No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. These five Statements are required to be implemented as of October 31, 2017, if applicable.

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for October 31, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the District, as its pension plan is within the scope of Statement 68.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the District's financial statements as they do not participate in these types of postemployment benefits.

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

For the year ended October 31, 2017 the District had no tax abatement agreements.

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The District's pension plan does not meet the criteria for exclusion.

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. This Statement does not apply to the District as they have no component units.

Financial Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement Nos. 39, 61 and 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Reporting Entity (continued)

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the District has no component units, and is not a component unit of another governmental agency.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The District's *Governmental activities*, are supported by tax assessments, oil and gas royalties and lease income, and intergovernmental revenues.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognized all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Tax assessments and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange transactions should be recognized when the related purpose restriction, eligibility requirement or time requirement is met in accordance with GASB Statement No. 33 and GASB Statement No. 65. Tax assessments are recognized as revenues in the year for which they are levied. Federal operating and capital grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The District does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

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 both 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Tax assessments are levied in November based on the landowner's water righted acres as contained in the landowner's property deed records. The 1st half of the bill is due by January 1st and the 2nd half of the bill is due by July 1st of each year. Water assessments uncollected after October 31 are considered delinquent. Water rights can be sold by the District if delinquent assessments receivable are over three years old.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Licenses and fees 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, subject to the availability criterion. Only the available portion of tax assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. The unavailable portion of tax assessments receivable is considered to be a deferred inflow. All other revenue items including oil royalties and lease income are considered to be measurable and available only when cash is received by the government.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the District's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of District facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. The District has no expenditure-driven grants.

Governmental funds are used to account for the District's general government activities, including the collection and disbursement of specific or legally restricted monies and the District's water distributions operations as described below.

Under the requirements of GASB Statement No. 34, the District is required to present certain of its governmental funds as major based upon specific criteria.

The District reports the following major governmental funds:

The *Water Distribution Operations Fund* is the District's primary operating fund (general fund). It accounts for all financial resources of the District, except those required to be accounted for in another fund. The Water Distribution Operations fund's principal revenue sources are tax assessments levied for the purpose of defraying the expenses associated with the care, operation, management, repair and improvement of all canals, ditches, reservoirs and works within the District in accordance with NMSA 73-11-28).

The *Water Salvage Special Revenue Fund* accounts for funds provided by the United States Department of Interior, Bureau of Reclamation for operation and maintenance of the Pecos River Water Salvage Program. (NMSA 73-10-1)

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

The *Ft. Sumner Dam Special Revenue Fund* accounts for proceeds provided by the United States Department of Interior, Bureau of Reclamation to replace and repair radial gates at the dam. (NMSA 73-10-1)

The *Brantley Dam Special Revenue Fund* accounts for funds provided by the United States Department of Interior, Bureau of Reclamation for operation and maintenance of the Brantley Dam. (NMSA 73-10-1)

The *Seven Rivers Wells Special Revenue Fund* accounts for proceeds provided by the United States Department of Interior, Bureau of Reclamation for maintenance and repairs to wells located at Seven Rivers. (NMSA 73-10-1)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Equity

Deposits and Investments: The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the District are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The only investments of the District are Certificates of Deposit which have original maturity dates that exceed three months from the date of acquisition and total \$1,400,000 at October 31, 2017. None of the investments are subject to fair value adjustments.

Receivables and Payables: Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Equity (continued)

Receivables and Payables (continued): Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Items: Certain payments to vendors for items that include insurance costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets: Restricted assets consist of those funds restricted by the Bureau of Reclamation for federal projects associated with the repair and replacement of Radial Gates at the Ft. Sumner Dam and for the operation and maintenance of the Brantley Dam. Restricted cash and investments total \$118,295 and \$1,000,000 respectively at October 31, 2017.

Capital Assets: Capital assets, which include property, plant, equipment, mineral rights, and water irrigation systems (e.g. dams, canals, diversions, laterals, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Because the District is a phase III government for purposes of implementing GASB 34, it is not required to retroactively report its major general infrastructure assets. However, it must report all infrastructure assets purchased or built after July 1, 2003. Donated capital assets are recorded at estimated fair market value at the date of donation. The District does not develop any software.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Machinery and equipment	5-10
Water distribution system	25-50

Mineral rights are amortized based on 15% of oil royalties and lease payments received during the fiscal year.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Equity (continued)

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through October 31, 2017, along with any applicable employer related expenses including FICA, Medicare, and retirement expenses.

Unearned Revenues and Unavailable Revenues:

- *Unearned revenue*- Under both the accrual and the modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability called unearned revenue.
- *Unavailable revenue*- Under the modified accrual basis of accounting, revenue must also be susceptible to accrual (it must be both measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflow. The District has recorded \$67,620 related to tax assessments considered unavailable.

Compensated Absences: Full-time employees are granted vacation benefits in varying amounts of two or three weeks per year depending on tenure with the District. Employees are allowed to carry over forty hours from one year to the next. The District allows full-time employees to accumulate unused sick leave to a maximum of 80 hours. However, accumulated sick leave is not eligible for payment to terminating employees. Upon termination, employees shall receive payment for unused, accrued vacation.

The liability for these compensated absences is recorded in the government-wide statements. A liability for compensated absences is reported in the governmental fund financial statements only if they have matured. In the fund financial statements, governmental funds anticipate that none of the liability will be liquidated with expendable available financial resources; therefore, none of the liability is reported.

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. For bonds issued after the District implemented GASB 34, bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. The District had no bonds outstanding as of October 31, 2017.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Equity (continued)

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 New Mexico 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, on the economic resources measurement focus and accrual basis of accounting. 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.

Deferred Outflows of Resources: In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The District four types of items that qualify for reporting in this category. Accordingly, these items, employer contributions subsequent to the measurement date in the amount of \$61,377, changes of assumptions in the amount of \$65,579, the difference between expected and actual experience in the amount of \$55,878, and the net difference between projected and actual investment earnings of \$205,777 are reported in the Statement of Net Position. These amounts are deferred and will be recognized as pension expense in future periods.

Deferred Inflows of Resources: In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The District has three types of items present on the Statement of Net Position which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, these items, changes in proportion in the amount of \$91,686, changes of assumptions in the amount of \$186, and the difference between expected and actual experience in the amount of \$10,915 are reported on the Statement of Net Position. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

Net Position or Fund Equity

Fund Balance Classification Policies and Procedures: For restricted fund balances, the District includes amounts that can be spent only for the specific purposes stipulated by Statute, Ordinance, Resolutions or enabling Legislation. Fund balances in this category represent the remaining amount that is restricted for future use in the specific fund.

For committed fund balances, the District includes amounts for specific purposes by formal action of the Governing Body of the Carlsbad Irrigation District.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Equity (continued)

For assigned fund balances, the District includes amounts that are intended to be spent for specific purposes, but are not restricted or committed.

For nonspendable fund balance, the District includes amounts that cannot be spent because they are either (a) not in spendable form, for example, inventories, prepaid amounts, long term amount of loans and note receivable; or (b) legally or contractually required to be maintained intact, for example, debt service reserves.

Regarding the District's spending policies, in all cases, restricted, then committed, and then assigned fund balances are to be expended in that order, prior to infusion and expenditures of any general (unassigned) funds designated for supplementing any given department. In this manner, only after restricted, committed, or assigned funds are expended will the Governing Body permit general unassigned funds be spent to meet a specific fund's objectives.

Nonspendable Fund Balance: At October 31, 2017, the nonspendable fund balance on the governmental funds balance sheet is \$4,605.

Restricted Fund Balance: At October 31, 2017, the restricted fund balance on the governmental funds balance sheet is made up of \$1,114,025 for the restricted purposes as defined by each fund as described on pages 16-17.

Equity is classified as net position and displayed in three components:

- a. **Net investment in capital assets:** Net position invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted net position:** Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. **Unrestricted net position:** All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Equity (continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the District's financial statements include management's estimate of depreciation on assets over their estimated useful lives and accrued compensated absences. Amortization of mineral rights are based on depletion of oil and gas reserves and is estimated to be 15% of oil and gas royalties received in a given fiscal year.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Governmental – Special Revenue Funds

The District, with assistance from the Bureau of Reclamation, will prepare budget or master work schedules and detailed work schedules that must be approved by the Bureau. These schedules will cover the following items:

- Master work schedules will, on a continuing basis, cover three (3) full years and show by fiscal years (November through October) each Project's facilities that are to be operated and maintained by the District and the total estimated costs by feature. The master work schedule will be updated and submitted to the Bureau by May 1st of each year for the upcoming three (3) years for all work covered under the cooperative agreement.
- The detailed quarterly work schedules will identify each Project's facilities that are to be operated and maintained by the District using Bureau funds, with a detailed description of work to be performed; equipment, materials and supplies to be purchased; and funds required during each month of the quarter.
- The master work schedule and detailed quarterly work schedules shall be prepared in advance of the proposed operation and maintenance work to permit review and approval by the Bureau of the proposed program. The District will not be obligated to do any of the proposed work until the Bureau has approved the master work schedule and the applicable quarterly work schedule, and funds are made available to the District.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgetary Information (continued)

The District does not prepare budgets for the special revenue funds other than the budgets on the quarterly work schedules. These budgets are prepared based on the accrual basis of accounting and are consistent with generally accepted accounting principles (GAAP). However, the budgets are not legally adopted by the Board of Directors of the District. Due to the budgets not being legally adopted or monitored by Board of Directors, the budgetary statements for the special revenue funds have been omitted from these financial statements. The inclusion of the budgets in the audit report would be misleading to the financial statements of the District for the year ended October 31, 2017.

General Fund-Budget

The District prepares an annual operating budget for its water operations fund (general fund), and both the Board of Directors and the New Mexico Department of Finance and Administration approves the budget. Once the budget has been formally approved, any amendments must also be approved by the Board of Directors and the Department of Finance and Administration. Line items within the budget may be over-expended; however, it is not legally permissible to over-expend the budget in total at the fund level.

The budget is adopted for the general fund on the modified accrual basis of accounting which is the same basis of accounting used to record revenues and expenditures for the governmental fund financial statements. The budgets secure appropriations for only one year.

The budgetary information presented in these financial statements has been properly amended by the Board of Directors in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund	\$ (88,500)	\$ 68,573

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 3: DEPOSITS AND INVESTMENTS

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed State investment requirements as of October 31, 2017.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or are collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The collateral pledged is listed on the Schedule of Collateral Pledged by Depository for Public Funds in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

All of the District's accounts are located at an insured depository institution. All noninterest-bearing transaction accounts will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000 for all deposit accounts out of state and up to \$250,000 for all time and saving accounts plus up to \$250,000 for all demand deposit accounts held at a single institution in state.

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, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At October 31, 2017, \$2,940,334 of the District's bank balances of \$3,440,334 was exposed to custodial credit risk. \$2,940,334 was uninsured and collateralized by securities held by the pledging bank's trust department, not in the District's name. None of the District's deposits were uninsured and uncollateralized at October 31, 2017.

**State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017**

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

	Carlsbad National Bank
Amount of deposits	\$ 3,440,334
FDIC Coverage	(500,000)
Total uninsured public funds	2,940,334
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	2,940,334
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	\$ 1,470,167
Pledged collateral	4,628,425
Over (under) collateralized	\$ 3,158,258

The collateral pledged is listed on the Schedule of Collateral Pledged by Depository for Public Funds in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

The District has presented certificates of deposits of \$1,400,000 as investments in the Statement of Net Position; however, these are classified as deposits for disclosure purposes.

Reconciliation to the Statement of Net Position

Unrestricted cash and cash equivalents per Exhibit A-1	\$ 1,903,135
Restricted cash per Exhibit A-1	118,295
Investments per Exhibit A-1	400,000
Restricted investments per Exhibit A-1	1,000,000
Plus: outstanding checks	28,311
Less: deposits in transit	(8,807)
Less: petty cash	(600)
Bank balance of deposits	\$ 3,440,334

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 4: RECEIVABLES

The District's receivables as of October 31, 2017 are as follows:

	Governmental Funds
Tax assessments receivable	\$ 100,740

Total receivables above are considered to be 100% collectible.

The District has recorded \$67,620 related to tax assessments considered unavailable as a deferred inflow as of October 31, 2017.

NOTE 5: INTERFUND TRANSFERS

Transfers have primarily been recorded to supplement funding sources in the normal course of operations and to close out funds for projects completed during the year. Transfers were recorded during the year ended October 31, 2017 as follows:

Transfers Out	Transfers in	Amount
Brantley Dam Special Revenue Fund	Water Distribution Operation	\$ 82,191
Seven Rivers Wells Special Revenue Fund	Water Distribution Operation	3,395
Ft Sumner Dam Special Revenue Fund	Water Distribution Operation	7,988
Total		\$ 93,574

**State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017**

NOTE 6: CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended October 31, 2017. Land is not subject to depreciation.

	Balance October 31, 2016	Additions	Deletions	Balance October 31, 2017
Capital assets not being depreciated:				
Land	\$ 2,643,270	\$ -	\$ -	\$ 2,643,270
Capital assets being depreciated:				
Mineral rights	2,250,000	-	-	2,250,000
Buildings and improvements	394,819	-	-	394,819
Machinery and equipment	820,181	109,202	30,800	898,583
Water distribution system	7,589,443	-	-	7,589,443
Total capital assets being depreciated	11,054,443	109,202	30,800	11,132,845
Total capital assets	13,697,713	109,202	30,800	13,776,115
Less accumulated depreciation:				
Mineral rights	7,364	95,074	-	102,438
Buildings and improvements	106,479	9,871	-	116,350
Machinery and equipment	388,584	57,092	23,650	422,026
Water distribution system	7,183,321	72,614	-	7,255,935
Total accumulated depreciation	7,685,748	234,651	23,650	7,896,749
Total capital assets, net of depreciation	\$ 6,011,965	\$ (125,449)	\$ 7,150	\$ 5,879,366

Depreciation expense for the year ended October 31, 2017 totaled \$234,651 and is charged to the District's public works function on the Statement of Activities.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 7: LONG-TERM DEBT

During the year ended October 31, 2017, the following changes occurred in the liabilities reported in the government-wide Statement of Net Position:

	Balance October 31, 2016	Additions	Retirements	Balance October 31, 2017	Due Within One Year
Accrued Compensated absences	\$ 18,546	\$ 14,791	\$ 16,202	\$ 17,135	\$ 7,100

In prior years, compensated absences have been liquidated out of the Water Distribution Operations fund (general fund).

NOTE 8: DEFICIT FUND BALANCE AND BUDGET NONCOMPLIANCE

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

- A. Deficit fund balance of individual funds. There were no deficit fund balances as of October 31, 2017.
- B. Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary legal level of controls is at the fund level. There were no funds that exceeded approved budgetary authority for the year ended October 31, 2017.
- C. Designated cash appropriations in excess of available balances. There were no funds in which the designated cash appropriations were in excess of available balances for the year ended October 31, 2017.

NOTE 9: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN

General Information about the Pension Plan

Plan description. The Public Employees Retirement Fund (PERA Fund) is a **cost-sharing, multiple employer defined benefit pension plan**. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, 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 PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978).

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 9: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN (continued)

General Information about the Pension Plan (continued)

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 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org> using the Audit Report Search function for agency 366.

Benefits provided. For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2016 available at <http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR-12.22.2016-FINAL-with-corrections.pdf>.

Contributions. The contribution requirements of defined benefit plan members and the District are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY16 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on page 43 of the PERA FY16 annual audit report at <http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR-12.22.2016-FINAL-with-corrections.pdf>. The PERA coverage options that apply to Carlsbad Irrigation District is the Municipal General Division. Statutorily required contributions to the pension plan from the District were \$61,377 for the year ended October 31, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

**State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017**

NOTE 9: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN (continued)

General Information about the Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued): The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred inflows and outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members.

Carlsbad Irrigation District's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Municipal General Division. At October 31, 2017, the District reported a liability of \$1,118,365 for its proportionate share of the net pension liability. At June 30, 2016, the District's proportion was 0.0700 percent, which was a decrease of 0.0032 from its proportion measured as of June 30, 2015.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 9: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN (continued)

For the year ended October 31, 2017, the District recognized PERA Fund Municipal General Division pension expense of \$115,798. At October 31, 2017, the District reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 65,579	\$ 186
Difference between expected and actual experience	55,878	10,915
Changes in proportion	-	91,686
Net difference between projected and actual earnings on pension plan investments	205,777	-
Carlsbad Irrigation District's contributions subsequent to the measurement date	61,377	-
Total	\$ 388,611	\$ 102,787

\$61,377 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (30,974)
2018	(30,974)
2019	(111,171)
2020	(51,328)
2021	-
Thereafter	-

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2015 for each of the membership groups. Then, each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 9: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN (continued)

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.48% annual rate, net of investment experience
Projected benefit payment	100 years
Payroll growth	2.75% for the first 10 years, then 3.25% all other years
Projected salary increases	2.75% to 14.25% annual rate
Includes inflation at	2.25% annual rate first 10 years, 2.75% all other
Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience study dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2015 (economic)

The long-term expected rate of return on pension plan investments was determined using a statistical analysis 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 asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

State of New Mexico
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2017

NOTE 9: PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN (continued)

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50	1.79
Credit Oriented Fixed Income	15.00	5.77
Real Assets	20.00	7.35
Total	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.48 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.48% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following table shows the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the District's net pension liability in each PERA Fund Division that the District participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

PERA Fund Municipal General Division	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
Carlsbad Irrigation District's proportionate share of the net pension liability	\$ 1,667,382	\$ 1,118,365	\$ 662,982

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the pension plan. There were no amounts owed to PERA at October 31, 2017. Contractually required contributions are remitted to PERA monthly for the previous month's withholdings. Accrued payroll includes the employer's portion of retirement contributions related to employee services rendered as of October 31, 2017 but paid in November 2017.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 10: POST-EMPLOYMENT BENEFIT – STATE RETIREE HEALTH CARE PLAN

Carlsbad Irrigation District did not participate in the Retiree Health Care Plan provided under the Retiree Health Care Act (10-7c-1 to 10-tc-17, NMSA 1978) during the year ended October 31, 2017.

NOTE 11: CONTINGENT LIABILITIES

The District is party to various claims and lawsuits in the normal course of business. The District is unaware of any material pending or threatened litigation, claims or assessments against the District which are not covered by the District's insurance.

NOTE 12: FEDERAL AND STATE GRANTS

In the normal course of operations, the District receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not expected to be material. Federal programs are subject to a single audit in the event total expenditures exceed \$750,000. Total federal expenditures during the year ended October 31, 2017 were as follows:

	Federal
	Expenditures
Brantley Dam Special Revenue Fund	\$ 182,023
Seven Rivers Wells Special Revenue Fund	5,115
Total federal expenditures	<u>\$ 187,138</u>

NOTE 13: CONCENTRATIONS

Approximately 67% of the District's revenues are derived from tax assessments to landowners. Reduction or interruption of these revenue sources is not expected. The District also depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the District is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and federal and State appropriations.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 14: SUBSEQUENT PRONOUNCEMENTS

In June 2015, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. This Statement will not affect the District's financial statements.

In March 2016, GASB Statement No. 81, Irrevocable Split-Interest Agreements, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83, Certain Asset Retirement Obligations, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84, Fiduciary Activities, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85, Omnibus 2017, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The District is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, Certain Debt Extinguishment Issues, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to in-substance defeasance of debt using only existing resources. The District does not expect the pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87, Leases, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

NOTE 15: RESTRICTED NET POSITION

The government-wide statement of net position reports \$1,114,025 of restricted net position, all of which is restricted by enabling legislation referred to in the special revenue fund descriptions on pages 30-31.

State of New Mexico
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2017

NOTE 16: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The District participates in the New Mexico Self-Insurers' Fund risk pool.

The District has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the District which exceeds the insurance coverage, the District would not be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverages have not changed significantly from prior years and coverages are expected to be continued.

At October 31, 2017, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Carlsbad Irrigation District.

New Mexico Self-Insurers' Fund has not provided information on an entity by entity basis that would allow for a reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year.

NOTE 17: FUND BALANCE AND NET POSITION RESTATEMENT

Fund Balance (General Fund) and Net Position have been restated to correct prior year revenue balances. The District identified tax assessment revenues earned during fiscal year 2017 were recognized as unavailable revenue for the 2016 fiscal year. This restatement resulted in a decrease of beginning fund balance (General Fund) and net position in the amount of \$64,770.

NOTE 18: SUBSEQUENT EVENTS

The date to which events occurring after October 31, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is March 30, 2018, which is the date on which the financial statements were issued.

Required Supplementary Information

State of New Mexico
Carlsbad Irrigation District
Schedule of Proportionate Share of the Net Pension Liability of PERA Division
Public Employees Retirement Association (PERA) Plan
Municipal General Division
Last 10 Fiscal Years*


	2017 Measurement Date (As of and for the year ended October 31, 2016)	2016 Measurement Date (As of and for the year ended October 31, 2015)	2015 Measurement Date (As of and for the year ended October 31, 2014)
Carlsbad Irrigation District's proportion of the net pension liability	0.0700%	0.0732%	0.0848%
Carlsbad Irrigation District's proportionate share of the net pension liability	\$ 1,118,365	\$ 746,337	\$ 661,531
Carlsbad Irrigation District's covered payroll	\$ 763,514	\$ 775,054	\$ 929,220
Carlsbad Irrigation District's proportionate share of the net pension liability as a percentage of its covered payroll	146%	96.29%	71.19%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	81.29%

* The amounts presented were determined as of October 31. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Carlsbad Irrigation District will present information for those years for which information is available.

State of New Mexico
Carlsbad Irrigation District
Schedule of Contributions
Public Employees Retirement Association (PERA) Plan
Municipal General Division
Last 10 Fiscal Years*

	As of and for the year ended October 31, 2017	As of and for the year ended October 31, 2016	As of and for the year ended October 31, 2015
Contractually required contribution	\$ 61,377	\$ 56,500	\$ 57,354
Contributions in relation to the contractually required contribution	61,377	56,500	57,354
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Carlsbad Irrigation District's covered payroll	\$ 829,419	\$ 763,514	\$ 775,054
Contributions as a percentage of covered payroll	7.40%	7.40%	7.40%

* The amounts presented were determined as of October 31. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Carlsbad Irrigation District will present information for those years for which information is available.



**State of New Mexico
Carlsbad Irrigation District
Notes to Required Supplementary Information
For the Year Ended October 31, 2017**

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit available at http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf.

Changes of assumptions. The Public Employees Retirement Association (PERA) of the NEW Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at <http://s3.amazonaws.com/boardaudio/Final-Version-2016-PERA-GASB-68-Report.pdf>. See the notes to the financial statements on the CAFR pages 74-76 which summarizes actuarial assumptions and methods effective with the June 30, 2016 valuation.

Supplementary Information

State of New Mexico
Carlsbad Irrigation District
Schedule of Deposit and Investment Accounts
October 31, 2017

Bank Account Type/Name	Deposits
	Carlsbad National Bank
O & M Checking - Noninterest Bearing	\$ 102,315
Money Management Checking - Interest Bearing	1,014,713
Oil & Gas Savings - Interest Bearing	803,256
E-Account Checking - Noninterest Bearing (CID Traveling Debit Card)	1,755
BOR Savings - Interest Bearing	118,295
CD - BOR	200,000
CD - BOR	800,000
CD - Oil and Gas	400,000
Total on deposit	3,440,334
Reconciling items	(19,504)
Reconciled balance	3,420,830
Petty cash	600
Total deposits and investments	\$ 3,421,430
Total unrestricted cash and cash equivalents per exhibit A-1	\$ 1,903,135
Total restricted cash per exhibit A-1	118,295
Total unrestricted investments per exhibit A-1	400,000
Total restricted investments per exhibit A-1	1,000,000
Total deposits and investments	\$ 3,421,430

State of New Mexico
Carlsbad Irrigation District
Schedule of Collateral Pledged by Depository for Public Funds
October 31, 2017

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at October 31, 2017	Location of Safekeeper
Carlsbad National Bank					
	Repo 6814472 GNMA II Pool #MA0082	5/20/2042	36179MCT5	\$ 931,006	FHLB: Dallas, Texas
	Repo 6601643 FNR 2013-39 BP	6/25/2042	3136AEDM6	1,366,617	FHLB: Dallas, Texas
	Repo 6601644 FHR 4118 MP	9/15/2042	3137AUQN2	996,046	FHLB: Dallas, Texas
	FN99AR AL 508	7/1/2037	3138EHVA7	299,322	FHLB: Dallas, Texas
	FHLMC POOL #C91709	6/1/2033	3128P73S0	628,569	FHLB: Dallas, Texas
	FNMA POOL #469829	12/1/2018	3138S429	406,865	FHLB: Dallas, Texas
Total Carlsbad National Bank				4,628,425	
Total Pledged Collateral				\$ 4,628,425	

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Compliance Section

INDEPENDENT AUDITOR’S 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*

Wayne Johnson
New Mexico State Auditor
To the President and Board of Directors
Carlsbad Irrigation District
Carlsbad, 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, each major fund, and the budgetary comparison of the general fund of the Carlsbad Irrigation District (the “District”), as of and for the year ended October 31, 2017, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated March 30, 2018.

Internal Controls 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 is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

We noted matters that are required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of Section 12-6-5 NMSA 1978 Findings as items NM 2017-001, NM 2017-002, NM 2017-003, and NM 2017-004.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, 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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Carlsbad, New Mexico
March 30, 2018

**State of New Mexico
Carlsbad Irrigation District
Schedule of Findings and Responses
October 31, 2017**

Section I – Summary of Auditor’s Results

Financial Statements:

- | | |
|----------------------------------------------------------------------------------|------------|
| 1. Type of auditor’s report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | None noted |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements noted? | None noted |

**State of New Mexico
Carlsbad Irrigation District
Schedule of Findings and Responses
October 31, 2017**

Section II – Financial Statement Findings and Responses

A. Financial Statement Findings

None noted

B. Section 12-6-5 NMSA 1978 Findings

NM 2017-001 – Deficiency in Internal Controls over Review of the Payroll Transaction Cycle – Other Noncompliance

Condition: Though an employee's timesheet and attendance record were correct and approved, the amount of sick time the employee took during the pay period tested was not entered into the payroll system, causing a discrepancy in sick time used between the payroll system and the employee's records. The employee took 8 hours of sick time during the tested pay period, resulting in a \$112 difference in their sick time accrual.

Criteria: NMSA 1978 Section 6-6-3 requires a review of employee timesheets, a review of payroll reports, and proper authorization and approval for wages to be maintained in order to have proper and sufficient internal controls to reduce the risk of fraudulent activities.

Effect: An employee could take more sick or vacation time allotted per District policy if the payroll system does not indicate the true sick and vacation hours used.

Cause: District Management's manual review of the 1/27/2017 payroll did not catch the variance between sick hours used on the employee's timesheet and sick hours used on the employee's pay stub.

Auditor's Recommendation: The auditors recommend District Management review the payroll list, pay stub, and employee timesheet together to insure a match between all employee payroll documents.

View of Responsible Officials and Planned Corrective Actions: This was a simple clerical error that happened during the course of finalizing a particular payroll period. The check was prior to the correction of the employee's sick leave balance. The Bookkeeper will take the necessary steps to accurately charge sick leave to employee prior to issuing employee payroll checks. This incident has been corrected and we do not anticipate this to happen in the future.

**State of New Mexico
Carlsbad Irrigation District
Schedule of Findings and Responses
October 31, 2017**

B. Section 12-6-5 NMSA 1978 Findings (continued)

NM 2017-002 – No Certified Chief Procurement Officer – Other Noncompliance

Condition: Carlsbad Irrigation District, a local public body, does not have a registered or certified chief procurement officer in place though the District does engage in State procurement.

Criteria: According to Procurement Code Regulations 1.4.1.94.A(2), each state agency and local public body shall provide to the state purchasing agent the name of and all changes to the name of the state agency's or local public body's chief procurement officer and information identifying the state agency's or local public body's central purchasing office. It is a violation of statute if state agencies and local public bodies do not have a chief procurement officer listed on the state purchasing agent list before performing procurements. Section 13-1-98 NMSA 1978 shall not reduce the scope of duties, responsibilities or authority of the state purchasing agent, nor shall such exemptions exclude state agencies and local public bodies from the duties and responsibilities of providing the state purchasing agent the name of its certified chief procurement officer. All state agencies and local public bodies and their certified chief procurement officers are required to comply with all requirements under Sections 13-1-28 through 13-1-199 NMSA 1978 (amended 2013).

Effect: The District is not in compliance with this statute.

Cause: District Management was not aware of this statute or that it applied to the District. After July 1, 2015, only certified chief procurement officers may make determinations pursuant to the Procurement Code, issue purchase orders pursuant to the Procurement Code, and approve procurement pursuant to the Procurement Code. Though the District has not had any bids in the last few years, any purchases made pursuant to other State contracts, would apply to this statute.

Auditor's Recommendation: The District's Board of Governance should appoint a member of District staff to undergo the training and certification of a chief procurement officer. There is information regarding training and registration on the State Purchasing Division's website.

View of Responsible Officials and Planned Corrective Actions: The Manager has checked the State of New Mexico website for availability of CPO Training dates. The last CPO Training Date posted on the website was in October 2017. The Manager has emailed the State of New Mexico requesting an updated schedule of CPO trainings. The Manager plans to sign up for the next available training.

State of New Mexico
Carlsbad Irrigation District
Schedule of Findings and Responses
October 31, 2017

B. Section 12-6-5 NMSA 1978 Findings (continued)

NM 2017-003 – Fixed Asset Disposals – Other Noncompliance

Condition: In February 2017 the District traded in an older vehicle asset for a new vehicle, but did not inform the State Auditor of the planned disposition of this asset.

Criteria: According to NMSA 1978 Section 13-6-1-A(2), the governing authority of each local public body shall, as a prerequisite to the disposition of any items of tangible personal property, give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the state auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of the authority approving the action.

Effect: The District is not in compliance with this statute.

Cause: Though the District obtained approval from the Board to dispose this asset, the District did not notify the State Auditor of this asset disposition.

Auditor's Recommendation: The District should update its procedures for fixed asset disposals to include the notification of the State Auditor at least thirty days prior to planned disposition of all property and equipment included on fixed asset inventories.

View of Responsible Officials and Planned Corrective Actions: Although the Manager did have Board approval for this transaction, the Manager did not notify the State Auditor that a vehicle was going to be disposed of by trade-in. The contract itself was legal and similar to contracts by State agencies. The Manager will take the necessary steps to correct this in future transactions.

**State of New Mexico
Carlsbad Irrigation District
Schedule of Findings and Responses
October 31, 2017**

B. Section 12-6-5 NMSA 1978 Findings (continued)

NM 2017-004 – Adjustments by Auditor – Finding that does not rise to the level of significant deficiency

Condition: The District had to restate the prior year unavailable revenue balance which included tax revenue that was earned in fiscal year 2017 and was therefore overstated. This required a prior year restatement to the District's net position in the amount of \$64,770.

Criteria: According to AU-C 325, what the auditor does is independent of the client's internal control over financial reporting, and therefore, the auditor cannot be a compensating control for the client. Recording the adjustments is considered a significant process that the client needs to maintain.

Effect: The District's internal control procedures did not identify and record the necessary corrections to these transactions, and had they not been identified and/or corrected by the auditor, they would have resulted in a misstatement to the financial statements.

Cause: District Management did not correctly identify errors during their quarterly reviews of the District's financial statements.

Auditor's Recommendation: The District should compare quarterly financial statements provided by their bookkeeper to their accounting system and supporting records and inquire on any variances. The District should also review all support for any journal entries to ensure their accuracy.

View of Responsible Officials and Planned Corrective Actions: Carlsbad Irrigation District's fiscal year began 11/1/2016 and ended 10/31/2017. The Bookkeeper inadvertently posted customer payments made in early November 2016 as revenue for YE2016 instead of YE2017. It was determined the Bookkeeper did this as she was trying to close year end expenses and incomes for 2016. The Bookkeeper will take the necessary steps at year end close 10/31/2018 to correct this in the future.

Section III – Schedule of Prior Year Audit Findings

None noted

**State of New Mexico
Carlsbad Irrigation District
Other Disclosures
October 31, 2017**

Exit Conference

An exit conference was held on March 29, 2018. In attendance were the following:

Representing Carlsbad Irrigation District:

Gary Walterscheid	President
Dale Ballard	Manager
Shirley Talbot	Administrative Assistant
April Travelstead	Accounts Payable Specialist

Representing Carr, Riggs & Ingram, LLC:

Cindy Bryan	Partner
Alan D. Bowers, Jr., CPA	Partner
Zoë Vergas, CPA	Audit Senior

Auditor Prepared Financial Statements

Carr, Riggs & Ingram, LLC prepared the GAAP-basis financial statements and footnotes of Carlsbad Irrigation District from the original books and records provided to them by the management of the District. The responsibility for the financial statements remains with the District.