

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT**

**Financial Statements
With Independent Auditor's Report Thereon
October 31, 2007**

INTRODUCTORY SECTION

STATE OF NEW MEXICO
Carlsbad Irrigation District
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October 31, 2007

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CARLSBAD IRRIGATION DISTRICT
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October 31, 2007**

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**STATE OF NEW MEXICO
Carlsbad Irrigation District
Official Roster
October 31, 2007**

Name

Title

BOARD OF DIRECTORS

Charles H. Jurva
Gary Walterscheid
Richard J. Forrest
Max M. Vasquez
Marvin Van Soest

President
Vice-President
Director
Director
Director

DISTRICT OFFICIALS

William C. Ahrens
Ron Bailey

Manager/Secretary/Treasurer
Water Master

FINANCIAL SECTION



Ronald L. Miller, CPA/ABV, CVA
Ryan L. Miller, CPA
Robert C. Castillo, CPA

Members
American Institute of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas
New Mexico State Auditor
To the President and Board of Directors
Carlsbad Irrigation District
Carlsbad, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparisons for the major special revenue funds, and the aggregate remaining fund information for the year ended October 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison of the major proprietary fund of the Carlsbad Irrigation District presented as supplementary information in the accompanying financial statements as of and for the year ended October 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Carlsbad Irrigation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, budgetary comparisons for the major special revenue funds, and the aggregate remaining fund information of Carlsbad Irrigation District as of October 31, 2007, and the respective changes in financial position, and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparison of the major proprietary fund is presented fairly, in all material respects for the year ended October 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2010, 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* and should be considered in assessing the results of our audit.

Carlsbad Irrigation District has not presented a management's discussion and analysis that accounting principles accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements, and the budgetary comparison statements. The introductory section and the accompanying financial information listed as supporting schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and major proprietary fund budgetary comparison, list above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements and major proprietary fund budgetary comparison taken as a whole.

Miller & Associates, CPA, PC

Miller & Associates, CPA, PC
October 4, 2010

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Statement of Net Assets
Government -Wide
October 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,335,316	\$ 838,983	\$ 2,174,299
Receivables (net of allowance for uncollectibles)	-	25,396	25,396
Inventories	-	2,394	2,394
Capital assets (net of accumulated depreciation):			
Land	-	2,643,283	2,643,283
Buildings and improvements	19,197	2,885	22,082
Machinery and equipment	182,224	74,666	256,890
Water distribution system	496,707	2,776,700	3,273,407
Total assets	\$ 2,033,444	\$ 6,364,307	\$ 8,397,751
LIABILITIES AND NET ASSETS			
Accounts payable	\$ 6,077	\$ 30,545	\$ 36,622
Accrued payroll	8,060	24,331	32,391
Accrued interest	-	591	591
Deferred revenue - other	-	-	-
Noncurrent liabilities:			
Due within one year	-	82,382	82,382
Due in more than one year	-	-	-
Compensated absences	7,986	12,141	20,127
Total liabilities	22,123	149,990	172,113
Invested in capital assets, net of related debt	698,128	5,497,534	6,195,662
Unrestricted	1,313,193	716,783	2,029,976
Total net assets	2,011,321	6,214,317	8,225,638
Total liabilities and net assets	\$ 2,033,444	\$ 6,364,307	\$ 8,397,751

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

STATE OF NEW MEXICO
 CARLSBAD IRRIGATION DISTRICT
 Statement of Activities
 Government -Wide
 For the Year Ended October 31, 2007

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government:				
Governmental activities:				
Operations and maintenance	\$ 702,257	\$ -	\$ 646,618	\$ -
Total governmental activities	<u>702,257</u>	<u>-</u>	<u>646,618</u>	<u>-</u>
Business-type activities:				
Water distribution operations	1,893,497	1,248,266	51,608	-
Interest on long-term debt	3,487	-	-	-
Total business-type activities	<u>1,896,984</u>	<u>1,248,266</u>	<u>51,608</u>	<u>-</u>
Total primary government	<u>\$ 2,599,241</u>	<u>\$ 1,248,266</u>	<u>\$ 698,226</u>	<u>\$ -</u>

General revenues:
 Miscellaneous
 Royalties, rents and grazing
 Unrestricted investment earnings/(loss)
 (Loss) on sale of capital assets
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning of year
 Prior period restatement
 Net assets - beginning of year, as restated
 Net assets - end of year

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

Net (Expenses) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (55,639)	\$ -	\$ (55,639)
(55,639)	-	(55,639)
-	(593,624)	(593,624)
-	(3,487)	(3,487)
-	(597,111)	(597,111)
(55,639)	(597,111)	(652,750)
-	13,634	13,634
-	161,850	161,850
-	29,015	29,015
(1,196)	(27,101)	(28,297)
(1,196)	177,398	176,202
(56,835)	(419,713)	(476,548)
746,977	6,634,030	7,381,007
1,321,179	-	1,321,179
2,068,156	6,634,030	8,702,186
\$ 2,011,321	\$ 6,214,317	\$ 8,225,638

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Balance Sheet
Governmental Funds
October 31, 2007**

	<u>Special Revenue Funds</u>				Total Governmental Funds
	Ft. Sumner Dam	Brantley Seven Rivers	Brantley	Water Salvage	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 906,133	\$ 177,586	\$ 111,091	\$ 140,506	\$ 1,335,316
Total current assets	906,133	177,586	111,091	140,506	1,335,316
Total assets	<u>\$ 906,133</u>	<u>\$ 177,586</u>	<u>\$ 111,091</u>	<u>\$ 140,506</u>	<u>\$ 1,335,316</u>
LIABILITIES AND FUND BALANCES					
<i>Current Liabilities:</i>					
Accounts payable	\$ -	\$ -	\$ 3,435	\$ 2,642	\$ 6,077
Accrued wages payable	-	-	3,243	4,817	8,060
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	6,678	7,459	14,137
<i>Fund balances:</i>					
Unreserved:	906,133	177,586	104,413	133,047	1,321,179
Total fund balances	906,133	177,586	104,413	133,047	1,321,179
Total liabilities and fund balances	<u>\$ 906,133</u>	<u>\$ 177,586</u>	<u>\$ 111,091</u>	<u>\$ 140,506</u>	<u>\$ 1,335,316</u>

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

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Assets
October 31, 2007

Amounts reported for governmental activities in the Statement of net assets are different because:

Total governmental funds - fund balance	\$ 1,321,179
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	698,128
Long-term liabilities, including bonds payable, capital leases payable, notes payable, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds:	
Compensated absences	<u>(7,986)</u>
Net assets of governmental activities	<u><u>\$ 2,011,321</u></u>

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, 2007**

	Ft. Sumner Dam	Brantley Seven Rivers	Brantley	Water Salvage	Total Governmental Funds
REVENUES					
Intergovernmental	\$ -	\$ 40,366	\$ 236,747	\$ 369,505	\$ 646,618
Total revenues	-	40,366	236,747	369,505	646,618
EXPENDITURES					
Current:					
Personnel services	-	3,547	143,200	193,929	340,676
Overhead 15%	-	551	20,821	30,236	51,608
Operations and maintenance	-	36,268	72,726	134,990	243,984
Truck lease	-	-	-	10,350	10,350
Total expenditures	-	40,366	236,747	369,505	646,618
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Net changes in fund balances	-	-	-	-	-
Fund balances - beginning of year	-	-	-	-	-
Prior period restatement	906,133	177,586	104,413	133,047	1,321,179
Fund balances - beginning of year, restated	906,133	177,586	104,413	133,047	1,321,179
Fund balances - end of the year	\$ 906,133	\$ 177,586	\$ 104,413	\$ 133,047	\$ 1,321,179

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

**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, 2007**

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

Net change in fund balances - total governmental funds	\$	-
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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:

Depreciation expense		(47,653)
Disposal of capital assets		(1,196)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

(Increase) in compensated absences		<u>(7,986)</u>
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Change in net assets of governmental activities	\$	<u><u>(56,835)</u></u>
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Ft. Sumner Dam**

**Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended October 31, 2007**

	Budgeted Amounts		Actual	Variance with Favorable (Unfavorable)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,500,000	\$ 579,000	\$ -	\$ (579,000)
Total revenues	<u>1,500,000</u>	<u>579,000</u>	<u>-</u>	<u>(579,000)</u>
EXPENDITURES				
Current:				
Personnel services	-	-	-	-
Overhead 15%	-	-	-	-
Operations and maintenance	-	-	-	-
Truck lease	-	-	-	-
Capital outlay	1,500,000	579,000	-	579,000
Total expenditures	<u>1,500,000</u>	<u>579,000</u>	<u>-</u>	<u>579,000</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (uses):				
Designated cash	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Brantley Seven Rivers
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended October 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Favorable (Unfavorable)
REVENUES				
Intergovernmental	\$ 416,350	\$ 416,350	\$ 40,366	\$ (375,984)
Total revenues	<u>416,350</u>	<u>416,350</u>	<u>40,366</u>	<u>(375,984)</u>
EXPENDITURES				
Current:				
Personnel services	188,117	188,117	3,547	184,570
Overhead 15%	28,218	28,218	551	27,667
Operations and maintenance	200,015	200,015	36,268	163,747
Total expenditures	<u>416,350</u>	<u>416,350</u>	<u>40,366</u>	<u>375,984</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (uses):				
Designated cash	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Brantley Dam**

**Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended October 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Favorable (Unfavorable)
REVENUES				
Intergovernmental	\$ 416,350	\$ 278,978	\$ 230,070	\$ (48,908)
Total revenues	<u>416,350</u>	<u>278,978</u>	<u>230,070</u>	<u>(48,908)</u>
EXPENDITURES				
Current:				
Personnel services	188,117	150,150	139,958	10,192
Overhead 15%	28,218	22,523	20,821	1,702
Operations and maintenance	200,015	106,305	69,291	37,014
Total expenditures	<u>416,350</u>	<u>278,978</u>	<u>230,070</u>	<u>48,908</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (uses):				
Designated cash	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Water Salvage**

**Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended October 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Favorable (Unfavorable)
REVENUES				
Intergovernmental	\$ 660,626	\$ 296,722	\$ 362,046	\$ 65,324
Total revenues	<u>660,626</u>	<u>296,722</u>	<u>362,046</u>	<u>65,324</u>
EXPENDITURES				
Current:				
Personnel services	313,918	156,750	189,112	(32,362)
Overhead 15%	47,088	23,513	30,236	(6,723)
Operations and maintenance	285,820	103,109	132,348	(29,239)
Truck lease	13,800	13,350	10,350	3,000
Total expenditures	<u>660,626</u>	<u>296,722</u>	<u>362,046</u>	<u>(65,324)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (uses):				
Designated cash	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Proprietary Fund
Statement of Net Assets
October 31, 2007**

	Water Distribution Operations
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 838,983
Receivables (net of allowance for uncollectibles):	
Accounts	25,396
Inventory	2,394
Total current assets	866,773
Noncurrent assets:	
Capital Assets:	
Land	2,643,283
Buildings and improvements	67,378
Equipment and vehicles	559,489
Water distribution system	11,911,567
Total capital assets	15,181,717
Less: accumulated depreciation	(9,684,183)
Total capital assets (net of accumulated depreciation)	5,497,534
 Total assets	 \$ 6,364,307
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 30,544
Accrued wages payable	24,331
Accrued interest payable	591
Total current liabilities	55,466
Noncurrent liabilities:	
Notes payable	
Due within one year	82,382
Compensated absences	12,141
Total noncurrent liabilities	94,523
 Total liabilities	 149,989
NET ASSETS	
Invested in capital assets, net of related debt	5,497,534
Unrestricted	716,784
Total net assets	6,214,318
 Total liabilities and net assets	 \$ 6,364,307

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

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended October 31, 2007

	<u>Water Distribution Operations</u>
OPERATING REVENUE	
Assessment and toll charges	\$ 1,245,266
Maintenance charges - 15% overhead	51,608
Operating agreements and other	26,985
Total operating revenues	<u>1,323,859</u>
OPERATING EXPENSES	
Personnel services	1,018,834
Operations and maintenance	658,630
Depreciation	226,383
Total operating expenses	<u>1,903,847</u>
Operating income (loss)	<u>(579,988)</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest income	29,015
Interest expense	(3,487)
Royalties, rents, and grazing income	161,850
(Loss) on sale of capital assets	(27,102)
Total nonoperating revenues (expenses)	<u>160,276</u>
Change in net assets	<u>(419,712)</u>
Net assets - beginning of the year	<u>6,634,030</u>
Net assets - end of the year	<u>\$ 6,214,318</u>

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

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Proprietary Fund
Statement of Cash Flows
For the Year Ended June 30, 2007**

	Water Distribution Operations
Cash flows from operating activities	
Receipts from customers and users	\$ 1,240,580
Other operating cash receipts	78,593
Payments to suppliers	(520,418)
Payments to employees	(1,010,469)
Net cash provided (used) by operating activities	(211,714)
Cash flows from noncapital financing activities:	
Royalties, rent, and grazing income	161,850
Cash payments to other funds	32,838
Net cash provided (used) by noncapital financing activities	194,688
Cash flows from capital and related financing activities:	
Repayment of long-term debt	(80,311)
Interest paid on long-term debt	(4,067)
Purchase of capital assets	(63,183)
Net cash provided (used) by capital and related financing activities	(147,561)
Cash flows from investing activities:	
Interest income	29,015
Net cash provided by investing activities	29,015
Net increase (decrease) in cash and cash equivalents	(135,572)
Cash and cash equivalents at the beginning of year	974,555
Cash and cash equivalents at the end of the year	\$ 838,983

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

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Proprietary Fund
Statement of Cash Flows
For the Year Ended June 30, 2007

		Water Distribution Operations
Reconciliation of operating income (loss)		
to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$	(579,988)
Adjustments to reconcile operating		
income (loss) to net cash		
provided by operating		
activities:		
Depreciation expense		226,383
(Increase) decrease in:		
Accounts receivable		(4,686)
Inventories		27,371
Prepays		107,682
(Decrease) Increase in:		
Accounts payable		3,159
Accrued expenses		8,365
		8,365
Net cash provided (used) by		
operating activities	\$	(211,714)
		(211,714)
Cash and cash equivalents	\$	838,983
		838,983

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

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
October 31, 2007

I. 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 directors elected from the landholders and water users with the boundaries of the District. The District is responsible for the operation and maintenance of the water distributions system and improvements of Sumner, 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 southeast 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.

This summary of significant accounting policies of the Carlsbad Irrigation 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 government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The government-wide and the proprietary funds financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private sector guidance for their government-wide financial statements and enterprise funds, subject to the same limitation. The District has elected not to follow the subsequent private sector guidance. The more significant of the District's accounting policies are described below.

A. Financial Reporting entity

In evaluating how to define Carlsbad Irrigation 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 Statements No. 14 and No. 39. 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.

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 financial relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
October 31, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, Carlsbad Irrigation District has no component units, and is not a component unit of another governmental agency.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets 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. *Governmental activities*, which normally are supported by intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets 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 Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if applicable, even though the later are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. 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*, as are the proprietary fund and fiduciary fund, if applicable, financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Water assessment taxes are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements of time, reimbursement and contingencies imposed by the provider have been met.

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CARLSBAD IRRIGATION DISTRICT
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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

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, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of water assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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-Seven Rivers* special revenue fund accounts for proceeds provided by the United States Department of Interior, Bureau of Reclamation to drill augmentation wells to pump water into the water distribution system. (NMSA, 73-10-1)

The *Brantley* 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 *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)

The government reports the following major proprietary funds:

The *Water Distribution Operations Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, including oil and gas royalties, leases and grazing fees, 2) operating

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
October 31, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the operations and maintenance fund are water righted assessment and charges to customers for sales and services. Operating expenses for enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities, and Net Assets 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. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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 or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At year-end all receivables are considered collectible.

Water assessments are levied in November based on the landowner's water righted acres as contained in the landowner's property deed records. 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 the Financial Statements
October 31, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Inventories and Prepaid Items

Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors for items that include insurance and water irrigation system maintenance agreements with the United States Department of the Interior, Bureau of Reclamation reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and water irrigation system assets (e.g. dams, canals, diversions, laterals, and similar items), are reported in the applicable governmental or business-type activities columns 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. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government-wide financial statements.

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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There were no construction projects financed during the current year. Computer software is capitalized and depreciated in the same manner as other assets.

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 system	40
Machinery and equipment	5-10
Water distribution system	25-50

Deferred Revenues

Accounting principles generally accepted in the United States of America require that grant revenue (voluntary nonexchange transactions) be recognized as revenue in the government-wide financial statements when all eligibility requirements have been met and recognized as revenue in the governmental fund financial statements based on the same factors subject to the availability criterion. Amounts received from reimbursement basis grants are recorded as deferred revenue in the governmental fund financial statements when received more than 60 days after year end.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
October 31, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Compensated Absences

With minor exceptions, 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. All vacation pay is accrued with incurred in the operations and maintenance proprietary fund financial statement. The non-current balance, if any, is reported as long-term debt. A liability for these amounts 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. In prior years compensated absences that are liquidated out of the governmental funds are liquidated from the Brantley and Water Salvage special revenue funds.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consist primarily of notes payable and accrued compensated absences.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets

Net assets are classified as net assets in three components:

- a) Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets – Consists of net assets 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.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

- c) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Reclassifications

Certain amounts included in the financial statements have been reclassified to conform to the current year presentation.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 (October through September) 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.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
October 31, 2007**

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Budgetary Information (Continued)

- 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 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.

Formal budgetary integration is employed as a management control device during the year for the Special Revenue Funds. Budgets for the District's governmental activities are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The budgets secure appropriations for only one year. All annual appropriations lapse at fiscal year end. Budgeted amounts are as originally adopted, or as amended by the District's Board of Directors.

Business-type – Enterprise Funds

The District prepares an annual operating budget for enterprise funds, and the Board of Directors approves the budget. The budget is not submitted to any other agency for approval. Budgets adopted for business-type activities or proprietary fund types represent financial plans based on the accrual basis of accounting and are consistent with generally accepted accounting principles (GAAP).

The budgetary information presented in these financial statements has been properly amended by the District in accordance with the above procedures. These amendments resulted in the following changes to excess (deficiency) of revenues over expenditures

	Designated Cash Generated (Required) to Balance Budget	
	Original Budget	Final Budget
Budgeted funds:		
Ft. Sumner Dam	\$ -	\$ -
Brantley Seven Rivers	-	-
Brantley Dam	-	-
Water Salvage	-	-
Water Distribution Operations	-	-
	\$ -	\$ -

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

III. 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, 2007.

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

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
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October 31, 2007**

III. DEPOSITS AND INVESTMENTS (Continued)

extent that they are insured by an agency of the United States or collateral deposited as security or by bond given by the financial institution.

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 of 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.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits, and interest bearing Now accounts of an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Deposits

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). October 31, 2008, \$0 of the Town's deposits of \$2,180,991 was exposed to custodial credit risk. \$2,112,634 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the District's name and \$0 was uninsured and uncollateralized. The District's bank balances were exposed to custodial credit risk as follows:

	Wells Fargo Bank	Wells Fargo Bank Repurchase Agreement	Total
Amount of deposits	\$ 68,357	\$ 2,112,634	\$ 2,180,991
FDIC Coverage	(68,357)	-	(68,357)
Total uninsured public funds	-	2,112,634	2,112,634
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	-	4,107,024	4,107,024
Uninsured and uncollateralized	-	-	-
Collateral requirement	-	2,154,887	2,154,887
Pledged security	-	4,107,024	4,107,024
Over (under) collateralization	\$ -	\$ 1,952,137	\$1,952,137

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
October 31, 2007**

III. DEPOSITS AND INVESTMENTS (Continued)

The collateral pledged is listed on the Schedule of Collateral Pledged by Depository on page 37 of 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.

Reconciliation to the Statements of Net Assets

The carrying amounts of deposits and investments shown above are included in the District's statement of net assets as follows:

Deposits	\$ 2,180,991
CD – Edward Jones	60,000
Petty Cash	600
Reconciling Items	(67,292)
Cash and cash equivalents	<u>\$ 2,174,299</u>

IV. RECEIVABLES

The District retains the authority to enforce lien rights on delinquent land owner accounts when nonpayment of special assessments occurs. Therefore, an allowance for uncollectible accounts is not necessary for fiscal year ended October 31, 2007. Receivables as of October 31, 2007, are as follows:

Receivables:	<u>Water Distribution Operations Fund</u>
Accounts	\$ 1,229
Assessments	24,167
Total	<u>\$ 25,396</u>

V. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended October 31, 2007, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	<u>Balance at October 31, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at October 31, 2007</u>
Capital assets used in:				
Governmental activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 29,130	\$ -	\$ (1,698)	\$ 27,432
Machinery and equipment	253,511	-	(1,018)	252,493
Water distribution system	<u>539,244</u>	-	-	<u>539,244</u>
Total capital assets being depreciated	<u>821,885</u>	-	<u>(2,716)</u>	<u>819,169</u>
Total capital assets	<u>821,885</u>	-	<u>(2,716)</u>	<u>819,169</u>
Less accumulated depreciation:				
Buildings and improvements	7,897	1,014	(676)	8,235
Machinery and equipment	46,044	25,069	(844)	70,269
Water distribution system	<u>20,967</u>	<u>21,570</u>	-	<u>42,537</u>
Total accumulated depreciation	<u>74,908</u>	<u>47,653</u>	<u>(1,520)</u>	<u>121,041</u>
Net capital assets	<u>\$ 746,977</u>	<u>\$ 47,653</u>	<u>\$ (1,196)</u>	<u>\$ 698,128</u>

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
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V. CAPITAL ASSETS (Continued)

	Balance at October 31, 2006	Additions	Deletions	Balance at October 31, 2007
Capital assets used in:				
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,643,283	\$ -	\$ -	\$ 2,643,283
Total capital assets not being depreciated	2,643,283	-	-	2,643,283
Capital assets, being depreciated:				
Buildings and improvements	146,367	-	(78,989)	67,378
Equipment and vehicles	675,735	63,183	(179,430)	559,488
Water distribution system	11,911,568	-	-	11,911,568
Total capital assets being depreciated	12,733,670	63,183	(258,419)	12,538,434
Total capital assets	15,376,953	63,183	(258,419)	15,181,717
Less accumulated depreciation:				
Buildings and improvements	120,463	1,059	(57,030)	64,492
Equipment and vehicles	636,682	22,429	(174,288)	484,823
Water distribution system	8,931,972	202,895	-	9,134,867
Total accumulated depreciation	9,689,117	226,383	(231,318)	9,684,182
Net capital assets	\$ 5,687,836	\$ 163,200	\$ (27,101)	\$ 5,497,535

Depreciation expense for the year ended October 31, 2007 was charged to the following functions and funds:

Governmental activities	
Operations and maintenance	\$ 47,653
Business-type activities:	
Water distribution operations	\$ 226,383

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Notes to the Financial Statements
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VI. LONG-TERM DEBT

Long-term liability activity for the year ended October 31, 2007, was as follows:

	Balance October 31, 2006	Additions	Reductions	Balance October 31, 2007	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 6,529	\$ 9,801	\$ (8,344)	\$ 7,986	\$ 7,986
Business-type Activities:					
NM Interstate Stream Commission	\$ 162,693	\$ -	\$ (80,342)	\$ 82,351	\$ 82,351
Capital leases	31	-	-	31	31
Compensated absences	9,246	17,510	(14,615)	12,141	12,141
Total long term debt	\$ 171,970	\$ 17,510	\$ (94,957)	\$ 94,523	\$ 94,523

The note payable dated July 18, 1988 for the business type activities consists of a 2.5% note payable for water improvements, due in annual payments including interest, through July 18, 2008, payable to the NM Interstate Stream Commission.

In prior years, the Water Distribution Operations fund has typically been used to liquidate long-term liabilities other than debt including capital leases and compensated absences.

The annual requirements to amortize the loans outstanding as of October 31, 2007, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 82,351	\$ 2,059	\$ 84,410
Total	\$ 82,351	\$ 2,059	\$ 84,410

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
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VII. PERA PENSION PLAN

Plan Description

Certain employees of the Carlsbad Irrigation District participate in the public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy

Plan members are required to contribute 7% of their gross salary. The District is required to contribute 7% of the gross covered salary. The contribution requirements of plan members and the District are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by act of the legislature. The District joined PERA November 2005. Therefore, there are no required contributions for the years ended prior to October 31, 2006. The District's employer contributions to PERA for the year ending October 31, 2007 were approximately \$49,861, which equal the amount of required contributions for the year. The District's employee contributions to PERA for the year ending October 31, 2007 were approximately \$49,861. The District joined PERA in November 2006. Therefore, there are no required contributions for years ended prior to October 31, 2007.

VIII. CONCENTRATIONS

Approximately 58% of the District's revenues are derived from special assessments and services to landowners. Reduction or interruption of these revenue sources is not expected, however, if reduction or interruption occurred, it would have a material impact on the operations of the District.

IX. DEFICIT FUND BALANCES AND EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

A.	Deficit fund balance of individual funds	None
B.	Excess of expenditures over appropriations Water Distribution Operations Fund	\$ 419,712

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CARLSBAD IRRIGATION DISTRICT
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October 31, 2007**

X. SUBSEQUENT ACCOUNTING STANDARD PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) today issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement provides needed guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks. The requirements in Statement 51 are effective for financial statements for periods beginning after June 15, 2009. The District believes it will have no significant effect on the financial statements for the upcoming year.

In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The District is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In February 2009, GASB adopted a standard that is designed to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and clarifying the existing governmental fund definitions. The standard establishes fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. The requirements in Statement 54 are effective for periods beginning after June 15, 2010. The District is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

XI. 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 believed to be material

XII. PRIOR PERIOD RESTATEMENT

During the period, management determined to restate the beginning fund balance for the Ft. Sumner Dam, Brantley Seven Rivers, Brantley Dam, and the Water Salvage Fund by \$906,133, \$177,586, \$104,413, and \$133,047, respectively. In addition the governmental activities beginning net assets was restated by \$1,321,179. The restatements were the result of grant revenue that was received in voluntary nonexchange transactions and all eligibility requirements had been met, therefore; the revenue should have been recognized when received and not deferred.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Non-Major Funds
October 31, 2007**

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Ft. Sumner Dam (NMSA, 73-10-1)

To account for funds provided by the United States Department of the Interior, Bureau of Reclamation to repair and replace radial gates at the dam.

Brantley Seven Rivers (NMSA, 73-10-1)

To account for funds provided by the United States Department of the Interior, Bureau of Reclamation to drill augmentation wells to pump water into the water distribution system.

Brantley (NMSA, 73-10-1)

To account for funds provided by the United States Department of the Interior, Bureau of Reclamation for operation and maintenance of the Brantley Dam.

Water Salvage (NMSA, 73-10-1)

To account for funds provided by the United States Department of the Interior, Bureau of Reclamation for the operation and maintenance of the Pecos River Water Salvage Program.

PROPRIETARY FUNDS

The Proprietary Funds are used to account for fees charged to external users for goods and services to ensure sound financial management.

Water Distribution Operations (NMSA, 72-1-1 to 72-1-10)

To account for revenues and related expenses for the operation and maintenance of the water distribution system. All activities necessary to provide such services are accounted for in this fund, including, but not limited to administration, operations, maintenance, billing for services provided, and collection of special assessments charged to water users.

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Water Distribution Operations Fund
Statement of Revenues, Expenditures and Changes in
Net Assets - Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended October 31, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating Revenues:				
Assessment and toll charges	\$ 1,234,695	\$ 1,234,695	1,245,266	\$ 10,571
Maintenance charges - 15% overhead	53,000	53,000	51,608	(1,392)
Operating agreements and other	40,220	40,220	26,985	(13,235)
Total operating revenues	<u>1,327,915</u>	<u>1,327,915</u>	<u>1,323,859</u>	<u>(4,056)</u>
Operating Expenditures:				
Personnel services	1,021,950	1,021,950	1,018,834	3,116
Operations and maintenance	530,455	530,455	658,630	(128,175)
Depreciation	-	-	226,383	(226,383)
Total operating expenditures	<u>1,552,405</u>	<u>1,552,405</u>	<u>1,903,847</u>	<u>(351,442)</u>
Operating income (loss)	<u>(224,490)</u>	<u>(224,490)</u>	<u>(579,988)</u>	<u>(355,498)</u>
Nonoperating revenues (expenses):				
Interest income	11,000	11,000	29,015	18,015
Royalties, rents, and grazing income	297,900	297,900	161,850	(136,050)
Interest on debt	-	-	(3,487)	3,487
Gain (loss) on sale of fixed assets	-	-	(27,102)	27,102
Total nonoperating revenues (expenses)	<u>308,900</u>	<u>308,900</u>	<u>160,276</u>	<u>(87,446)</u>
Income before contributions and transfers	84,410	84,410	(419,712)	(442,944)
Operating transfers out	<u>(84,410)</u>	<u>(84,410)</u>	<u>-</u>	<u>84,410</u>
Change in net assets as reported in statement of revenues, expenses, and changes in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (419,712)</u>	<u>\$ (358,534)</u>

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

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Deposit and Investment Accounts
For Public Funds
October 31, 2007**

Account	Account Type	Wells Fargo Bank
Operating	Checking	\$ 58,915
Oil and Gas	Checking	9,442
Repurchase agreement	Checking	2,112,634
Edward Jones	CD	60,000
		<hr/>
Account (Bank) balance - October 31, 2007		2,240,991
		<hr/>
Reconciling Items		(67,292)
		<hr/>
Reconciled balance - October 31, 2007		2,173,699
		<hr/>
Petty Cash		600
		<hr/>
Primary Government Combined Balance Sheet Total - October 31, 2007		\$ 2,174,299
		<hr/> <hr/>
Cash and cash equivalents- governmental activities		\$ 1,335,316
Cash and cash equivalents- business-type activities		838,983
		<hr/>
		\$ 2,174,299
		<hr/> <hr/>

See accompanying independent auditors report.

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Collateral Pledged by Depository
For Public Funds
October 31, 2007

<u>Depository</u>	<u>Cusip #</u>	<u>Description of Pledged Collateral</u>	<u>Fair Market Value October 31, 2007</u>	<u>Name and Location of Safekeeper</u>
Wells Fargo Bank	31409CV69	FNCL 867437 Due 5/1/2036	1,983,982	Federal Reserve Bank Kansas City, MO
Wells Fargo Bank	31409YGL5	FNCL 882303 Due 6/1/2036	687,750	Federal Reserve Bank Kansas City, MO
Wells Fargo Bank	31410CSL7	FNCL 885323 Due 6/1/2036	1,435,292	Federal Reserve Bank Kansas City, MO
			<u>4,107,024</u>	

See accompanying independent auditors report.

COMPLIANCE SECTION



Ronald L. Miller, CPA/ABV, CVA
Ryan L. Miller, CPA
Robert C. Castillo, CPA

Members
American Institute of
Certified Public Accountants

**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***

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To the President and Board of Directors
Carlsbad Irrigation District
Carlsbad, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparisons for the major special revenue funds, and the aggregate remaining fund information of the Carlsbad Irrigation District (the "District") as of and for the year ended October 31, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 4, 2010. We have also audited the budgetary comparison of the major proprietary fund of the Carlsbad Irrigation District presented as supplementary information in the accompanying financial statements as of and for the year ended October 31, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-2, 2007-5, 2007-7, 2007-8, and 2007-9 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-5 and 2007-8 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2006-2, , 2007-3, 2007-4, 2007-10, and 2007-11.

We noted certain matters that are required to be reported under Government Auditing Standards January 2007 Revision paragraphs 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-6.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, others within the organization, the Office of the State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Miller & Associates, CPA, PC

Miller & Associates, CPA, PC
October 4, 2010



Ronald L. Miller, CPA/ABV, CVA
Ryan L. Miller, CPA
Robert C. Castillo, CPA

Members
American Institute of
Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To the President and Board of Directors
Carlsbad Irrigation District
Carlsbad, New Mexico

Compliance

We have audited the compliance of the Carlsbad Irrigation District (the "District"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended October 31, 2007. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the Carlsbad Irrigation District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended October 31, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-10 and 2007-11.

Internal Control Over Compliance

The management of the Carlsbad Irrigation District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-10 and 2007-11 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this selection and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, others within the entity, the Office of the State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Miller & Associates, CPA, PC

Miller & Associates, CPA, PC
October 4, 2010

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended October 31, 2007

Federal Grantor/Pass - Through Grantor/Program Title	Pass Through Entity #	Federal CFDA Number	Program or Award Amount	Federal Expenditures
U.S. Department of the Interior				
Bureau of Reclamation				
Reclamation and Water Reuse Program (1)	9-07-40-R0910	15.504	\$ 622,900	\$ 622,900
Total Federal Financial Assistance			<u>\$ 622,900</u>	<u>\$ 622,900</u>

(1) Major Program

Note: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carlsbad Irrigation District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in, or used in the preparation of the governmental fund financial statements may not be consistent with amounts used in the Schedule of Expenditures of Federal Awards.

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

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Carlsbad Irrigation District, New Mexico.
2. There were five significant deficiencies disclosed during the audit of the financial statements in the 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*.
3. There were five instances of non-compliance disclosed during the audit of the financial statements in the 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*.
4. Two significant deficiencies were identified during the audit of internal control over major federal award programs.
5. The auditor's report on compliance for major federal award programs for the Carlsbad Irrigation District expresses an unqualified opinion on all federal programs.
6. The program tested as major was the Bureau of Reclamation Program, CFDA 15.504.
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. Carlsbad Irrigation District was determined to be a low-risk auditee.
9. There were two audit findings that were required to be reported in accordance with OMB Circular A-133, Section 510(a).

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2006-02: EXPENDITURES EXCEED BUDGETED APPROPRIATIONS

Condition

During our examination we noted that in the Water Distribution Operations Fund had expenditures in excess of appropriated amounts. The expenditures exceeded appropriations as follows:

Water Distributions Fund	\$419,712
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Criteria

State budgeting requirement 6.6.6 NMSA 1978 sets forth budget preparation standards and states that and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials.

Effect

The effect of this condition is that certain expenditures exceeded budget line items and the District is not in compliance with state law.

Cause

No budget line item transfers for the overages were proposed or approved by the governing body. The District did not have controls in place to ensure that budget line item transfers were done timely.

Auditors' Recommendation

We recommend that a responsible party perform a periodic review of the budget. Any anticipated budgetary transfers can be isolated and authorization can be obtained before the overspending of line item expenditures.

Agency Response

As of November 1, 2009 the District Manager presents to the Board of Directors a quarterly Budget versus actual review for their approval. Additionally, all budgeted expenditures are presented and approved by the Board monthly. Any line item expenditure above budget will be approved by the Board via one of the above mechanisms prior to before payment occurs.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-1: LATE REPORT

Condition

The District's October 31, 2007 audit report was not submitted to the state auditor by the due date of March 31, 2008. It was submitted on October 19, 2010.

Criteria

New Mexico State Auditor Rule 2.2.2 NMAC Section 2.2.2.9 (A) (g) requires that the audit report be filed no later than 5 months after fiscal year-end.

Effect

The audit report has not been issued in compliance with 2.2.2.9 NMAC, therefore; the District is not in compliance with state law.

Cause

The District was not ready for audit as a result of turnover in the accounting department and therefore it has taken over two years to get the books in order so they could be audited.

Auditors' Recommendation

We recommend that the District implement procedures to ensure that the books are kept in good order to enable auditing procedures to be performed on a timely basis.

Agency Response

First, we had personnel turnover, the manager and bookkeeper, midyear of 2007. Then we had the bookkeeping program crash and replaced with new software (QuickBooks) that was set up by the new bookkeeper as best she could. Second, the new manager and the new bookkeeper were unaware of how to comply with the State Audit Act and Audit Rule, as a result the aforementioned challenges we believe CID books and procedures and in good order to ensure audits may be performed in a timely manner.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-2: CAPITAL ASSETS

Condition

The District is required to be compliant with GASB 34 for the 2007 fiscal year. To be in compliance with the capital assets requirements of GASB 34, the District was required to prepare a capital asset listing of all assets over \$5,000 and calculate the accumulated depreciation and the depreciation expense at October 31, 2007.

Criteria

Per state statute 12-6-10, NMSA, 1978, and regulation 2.20.1.16 NMAC, the District should maintain detailed capital asset records. All records should be prepared, maintained and reviewed by the business Office.

Effect

The failure to maintain adequate capital asset records results in the inability of the District to maintain control over the capital assets.

Cause

The staff of the District has made considerable progress in this area, however, the listing was still not complete due to employee turnover and lack of controls to ensure the listings are prepared.

Auditors' Recommendation

We recommend that control accounts be established and maintained by category of the District's capital assets: detailed land, building and equipment records be prepared and reconciled to control accounts; and that the physical inventory conducted by the District be reconciled to the amount recorded on the capital assets control ledger. The Business Office should monitor all capital assets, including improvement to land, buildings, and equipment records to assure they are recorded.

Agency's Response:

All capital assets over \$5000 shall be listed, maintained and reviewed by the business office in compliance with NM state statute 12-6-10, NMSA, 1978 and regulation 2.20.1.16 NMAC. Annual physical inventories shall be taken and reconciled to capital asset list.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-3: SANITIZED HARD DRIVES

Criteria

Section 2.2.2.10.W(3), NMAC, of the State Audit Rule states that an agency must submit a certification indicating that computer hard drives have been erased and notification of disposition of property to the state auditor at least 30 days prior to the disposition of the computer hard drives.

Condition

Prior to October 2007, the District disposed of Central Processing Units (CPU's) when moving to the new building and did not provide a certificate of erasure to the state auditor's office as required under Section 2.2.2.10.W(3), NMAC, of the State Audit Rule.

Effect

The District is in violation of Section 2.2.2.10.W (3), NMAC, of the State Audit Rule and is not in compliance with State law.

Cause

The District was unaware of the special requirement of the State Audit Rule. The District disposed of computer hard drives without providing proper notification to the state auditor.

Auditors' Recommendation

The District must formalize its policies with regards to disposition of computer equipment and ensure that proper notifications are processed prior to the disposals.

Agency's Response

As of July 2008 the District's formal policy is to comply with Audit Rule Section 2.2.2.10.W (3), NMHC regarding the disposition of computer hard drives. No additional computers have been disposed of since this time.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-4: DISPOSITION OF PROPERTY

Condition

The District did not notify the Office of the State Auditor prior to the disposition of District property.

Criteria

Section 2.2.2.10.W(3), NMAC, of the State Audit Rule states that an government agency must submit a certification indicating that computer hard drives have been erased and notification of disposition of property to the state auditor at least 30 days prior to the disposition of the computer hard drives.

Cause

The capital assets notification was overlooked during the deletion process.

Effect

The District is in violation of Section 2.2.2.10.W (3), NMAC, of the State Audit Rule. In addition the District may have disposed of property that was unallowable.

Auditors' Recommendation

We recommend that the District implement procedures with regards to disposition of capital assets and ensure that proper notifications are issued prior to the disposals.

Agency's Response:

As of July 2008 the District's formal policy is to comply with Audit Rule Section 2.2.2.10W (3) NMHC regarding the disposition of Capital Assets including proper notifications prior to disposals.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-5 ACCOUNTING RECORDS

Condition

During the course of our audit we noted that the general ledger changed during the beginning of our field work in May 2008. In addition, activity was not posted by fund.

Criteria

According to NM State Audit Rule 2.2.2.8 J (2) "the agency shall maintain adequate accounting records."

Effect

The effect of changing the books could result in misstatement of books.

Cause

Due to turnover and lack of training, employees were not experienced in fund accounting requirements.

Auditors' Recommendation

We recommend that accounting positions are filled with competent and experienced individuals to ensure that the accounting records are kept up to date and are accurate.

Agency Response

Specialized and specific training has be provided to our very competent accounts payable clerk which will allow her to ensure that accounting records will be kept up to date and accurate as required by NMAC.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-6: CAPITAL ASSET INVENTORY COUNT

Condition

The District did not perform an annual inventory count of the Districts capital assets.

Criteria

Section 2.2.2.10.Y(2), NMAC, requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency's auditors.

Effect

The District may not maintain an accurate listing of capital asset inventory.

Cause

The District was unaware of the special requirement of the State Audit Rule.

Auditors' Recommendation

The District must formalize its policies with regards to the required capital assets yearly inventory count and ensure that a proper count of movable chattels and equipment takes place every year.

Agency Response

As stated in our response to finding 2007-2, the District shall perform an annual physical inventory of all qualifying capital assets over \$5000.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-7: CASH DISBURSEMENTS

Condition

During our test work of 15 cash disbursements, we noted 1 disbursements that was made without proper authorization. No purchase order was created and authorized prior to the payment to vendors for goods and services.

Criteria

The District policies and procedures require the use of a purchase order on purchases from vendors.

Effect

The District did not comply with its own polices and procedures. In addition, the proper maintenance of supporting documentation relating to financial transactions is necessary to mitigate possible dual payments of invoices, execution of disputes with vendors, etc.

Cause

The District did not maintain consistency when utilizing purchase orders and did not properly file supporting documentation in the instances noted due to not ensuring that policies and procedures are followed.

Auditors' Recommendation

We recommend the monitor activities to ensure compliance with established policies and procedures.

Agency Response

As of November 2009 a purchase order is required for all vendor expenditures. Verification of proper purchase order procedure compliance is a part of the business office function.

STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
Schedule of Findings and Questioned Costs
October 31, 2007

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-8: BANK RECONCILIATIONS

Condition

During our testwork, it was noted that the District did not have a bank reconciliation for 2 of the 4 bank statements for the month of February 2007. The District was able to reconcile the bank account, however it was not done in a timely manner.

Criteria

As indicated in District policies and procedures, bank reconciliations should be performed monthly for every cash account of the District.

Effect

Incorrect postings to the general ledger and any potential irregularities can go undetected, as well as the reconciled balance for that account can be unknown.

Cause

The District overlooked reconciling the bank accounts due to turnover in bookkeeping staff.

Auditors' Recommendation

We recommend that the District perform timely bank reconciliations on every account. In addition, we recommend that all bank reconciliations be reviewed by management personnel.

Agency Response

Bank Statement reconciliations on every account are now and shall continue to be performed on a monthly basis and reviewed by management.

**STATE OF NEW MEXICO
CARLSBAD IRRIGATION DISTRICT
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B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2007-9: DEFICIENCIES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

Condition

Management lacks the qualifications and training to apply generally accepted accounting principles in preparing the financial statements.

Criteria

According to SAS No. 112 management is responsible for maintaining controls over the preparation of the financial statements in accordance with GAAP.

Effect

The District was not in compliance with State Audit Rule 2.2.2.8.J.(4) in regards to SAS 112 and the ability of the District to be able to prepare its own financial statements. In addition, by not being able to prepare its own financial statements could keep management and the board from being able to make timely decisions.

Cause

Management has not obtained the expertise or knowledge to prepare the financial statements.

Auditors' Recommendation

We recommend that management obtain the proper training to prepare the financial statements.

Agency Response

Since specialized and specific audit system training has been completed, financial statements shall be prepared and shall become a part of the Monthly or Quarterly Board review process.

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CARLSBAD IRRIGATION DISTRICT
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C. FINDINGS – FEDERAL PROGRAMS

2007-10: SUSPENSION AND DEBARMENT – COMPLIANCE REQUIREMENT

Condition

During our audit of the Bureau of Reclamation Water Reuse Grant Program, CFDA No. 15.504, in accordance with OMB A-133, we noted that the District was not aware of the requirement to check if vendors have been suspended or debarred.

Questioned Costs

None

Criteria

According to the OMB A-133 Compliance Supplement, when a non-federal agency enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System* (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. A “covered transaction” includes those procurement contracts for goods and services awarded under a nonprocurement transaction that is expected to equal or exceed \$25,000 or meet certain other specified criteria.

Effect

The effect of not verifying that a vendor was not suspended or debarred resulted in the District’s non-compliance with federal guidelines.

Cause

The controls were not in place to verify that entities are not suspended or debarred when entering into a covered transaction.

Auditors’ Recommendation

We recommend that the District use the *Excluded Parties List System* to verify that an entity is not suspended or debarred before entering into a covered transaction, and keep documentation showing that the verification was performed.

Agency Response

The district will use the Excluded Parties List System to verify that an entity is not suspended or debarred before entering into a covered transaction, and keep documentations showing that the verification was performed on all applicable grants.

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CARLSBAD IRRIGATION DISTRICT
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C. FINDINGS – FEDERAL PROGRAMS (Continued)

2007-11 FAILURE TO SUBMIT THE DATA COLLECTION FORM IN A TIMELY MANNER - COMPLIANCE REQUIREMENT

Condition

During our audit we noted that the data collection form was not submitted to the Federal clearinghouse or to federal agencies within nine months after the fiscal year end as required by OMB Circular A-133.320.

Questioned Costs

None

Criteria

According to OMB A-133.320 the District is required to submit the data collection form as well as the reporting package to the Federal clearinghouse and federal agencies within earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Effect

The effect of this condition resulted in the District being not in compliance with OMB A-133 and in violation of federal compliance standards.

Cause

The District was not ready for audit as a result of turnover in the bookkeeping department and therefore it has taken over two years to get the books in order so they could be audited.

Auditors' Recommendation

We recommend that the District implement procedures to ensure that the books are kept in good order to enable auditing procedures to be performed on a timely basis, thus allowing the District to complete the data collection form in a timely manner.

Agency Response

Since many issues have been resolved regarding audit system set-up and training, we expect future audits may be completed in a more timely manner once the current backlog is resolved.

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D. FINDINGS – PRIOR YEAR AUDIT

- 06-01: Receiving Goods and Services – Resolved and not repeated
- 06-02: Expenditures Exceed Budgeted Appropriations – Revised and repeated

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E. AUDITOR PREPARED FINANCIAL STATEMENTS

The financial statements of the Carlsbad Irrigation District were prepared by Miller & Associates, CPA, PC from the original books and records provided by management.

F. EXIT CONFERENCE

The contents of this report were discussed at an exit conference held on October 4, 2010. The following individuals were in attendance:

Carlsbad Irrigation District Officials
Dudley Jones, District Manager
Shirley Talbot, Bookkeeper

Auditors
Ryan Miller, Partner
John Manganaro, Partner