

Accounting & Consulting Group, LLP

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Certified Public Accountants

State of New Mexico  
Carlsbad Irrigation District  
Annual Financial Report  
October 31, 2011



**STATE OF NEW MEXICO**  
**CARLSBAD IRRIGATION DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**OCTOBER 31, 2011**



## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
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 October 31, 2011

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Carlsbad Irrigation District  
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**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Official Roster  
October 31, 2011

<u>Name</u>	<u>Board of Directors</u>	<u>Title</u>
Charles H. Jurva		President
Gary Walterscheid		Vice-President
Richard J. Forrest		Director
Oscar Vasquez		Director
Johnny Reid		Director
	<u>District Officials</u>	
Dudley Jones		Manager
Ron Bailey		Water Master

**FINANCIAL SECTION**



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**Accounting & Consulting Group, LLP**  
Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

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

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for each major fund, and the aggregate remaining fund information of the Carlsbad Irrigation District (District) as of and for the year ended October 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. We were also engaged to audit the budgetary comparisons for the proprietary funds presented as supplementary information as of and for the year ended October 31, 2011, as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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.

We were not able to verify balances due to inadequate accounting records relating to the District's capital assets, accumulated depreciation, and depreciation expense accounts as of and for the year ended October 31, 2011. We were not able to verify either accumulated depreciation at November 1, 2010 or the depreciation expense for the fiscal year ended October 31, 2011. We were unable to determine these amounts through the use of alternative procedures and, as such, are unable to express an opinion on capital assets as of October 31, 2011 and the depreciation accrual for the year then ended. The effect on assets, net assets, and expenses of the governmental and business-type activities is not readily determinable.

In our opinion, except for the effects of the lack of evidence verifying the amount of capital assets, accumulated depreciation, and current year depreciation expenses as described in the preceding paragraph the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the major special revenue funds, and the aggregate remaining fund information, and budgetary comparisons for the proprietary fund presented as supplementary information as of and for the year ended October 31, 2011, as listed in the table of contents.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012 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, 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.

The District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the financial statements.

We were engaged to conduct an audit for the purpose of forming opinions on the District's basic financial statements and the budgetary comparisons. The accompanying Schedule of Expenditures of Federal Awards (Schedule III) is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, and is not a required part of the basis financial statements. The accompanying information listed as supporting Schedules I through II in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion regarding whether schedules I through II or the Schedule of Expenditures of Federal Awards (Schedule III) are fairly stated, in all material respects, in relation to the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

*Accounting & Consulting Group, L.L.P.*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
February 27, 2012

**BASIC  
FINANCIAL STATEMENTS**

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## STATE OF NEW MEXICO

Exhibit A-1

Carlsbad Irrigation District

Statement of Net Assets

October 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 973,711	\$ 121,114	\$ 1,094,825
Investments	1,000,000	9,325	1,009,325
Receivables:			
Other receivables	-	10,379	10,379
Internal balances	227,351	-	227,351
Prepaid expenses	-	5,688	5,688
Total current assets	<u>2,201,062</u>	<u>146,506</u>	<u>2,347,568</u>
Noncurrent assets			
Capital assets	817,772	15,275,105	16,092,877
Less: accumulated depreciation	<u>(309,326)</u>	<u>(10,523,912)</u>	<u>(10,833,238)</u>
Total noncurrent assets	<u>508,446</u>	<u>4,751,193</u>	<u>5,259,639</u>
Total assets	<u>\$ 2,709,508</u>	<u>\$ 4,897,699</u>	<u>\$ 7,607,207</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 24,735	\$ 10,219	\$ 34,954
Accrued payroll expenses	115	4,062	4,177
Accrued compensated absences	9,632	14,448	24,080
Internal balances	-	227,351	227,351
Total current liabilities	<u>34,482</u>	<u>256,080</u>	<u>290,562</u>
Total liabilities	<u>34,482</u>	<u>256,080</u>	<u>290,562</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	508,446	4,751,193	5,259,639
Restricted for: (Note 14)			
Other purposes	2,166,580	-	2,166,580
Unrestricted	-	(109,574)	(109,574)
Total net assets	<u>2,675,026</u>	<u>4,641,619</u>	<u>7,316,645</u>
Total liabilities and net assets	<u>\$ 2,709,508</u>	<u>\$ 4,897,699</u>	<u>\$ 7,607,207</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Activities  
 For the Year Ending October 31, 2011

<b>Functions/Programs</b>	<b>Program Revenues</b>			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Public works	\$ 869,311	\$ -	\$ 999,675	\$ 91,009
<i>Total governmental activities</i>	869,311	-	999,675	91,009
<b>Business-type Activities:</b>				
Water distribution operations	1,970,696	1,660,199	-	-
<i>Total primary government</i>	\$ 2,840,007	\$ 1,660,199	\$ 999,675	\$ 91,009
<b>General Revenues:</b>				
Royalties and rental income				
Gross receipts taxes				
Gasoline and motor vehicle taxes				
Other taxes				
Licenses and fees				
Investment income				
Miscellaneous income				
Transfers				
Gain/loss on disposal of capital assets				
Total general revenues, transfers, and gain/loss on disposal of capital assets				
Change in net assets				
Net assets, beginning				
Restatement (Note 16)				
Net assets, beginning as restated				
Net assets, ending				

The accompanying notes are an integral part of these financial statements

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ 221,373	\$ -	\$ 221,373
221,373	-	221,373
-	(310,497)	(310,497)
\$ 221,373	\$ (310,497)	\$ (89,124)
410,035	10,300	420,335
-	-	-
-	-	-
-	-	-
-	-	-
-	6,727	6,727
-	96,081	96,081
-	-	-
-	8,750	8,750
410,035	121,858	531,893
631,408	(188,639)	442,769
2,043,618	4,943,550	6,987,168
-	(113,292)	(113,292)
2,043,618	4,830,258	6,873,876
\$ 2,675,026	\$ 4,641,619	\$ 7,316,645

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**

Carlsbad Irrigation District

Balance Sheet

Governmental Funds

October 31, 2011

	<u>Oil and Gas</u>	<u>Water Salvage</u>	<u>Ft. Sumner Dam</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 412,224	\$ 96,001	\$ 146,240
Investments	-	200,000	800,000
Due from other funds	194,720	52,983	-
<i>Total assets</i>	<u>\$ 606,944</u>	<u>\$ 348,984</u>	<u>\$ 946,240</u>
<i>Liabilities and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 13,927	\$ 824	\$ 8,339
Other accrued expenses	-	115	-
Due to other funds	-	-	90
<i>Total liabilities</i>	<u>13,927</u>	<u>939</u>	<u>8,429</u>
<i>Fund balances</i>			
Spendable			
Restricted		348,045	937,811
Unassigned	593,017		
<i>Total fund balances</i>	<u>593,017</u>	<u>348,045</u>	<u>937,811</u>
<i>Total liabilities and fund balances</i>	<u>\$ 606,944</u>	<u>\$ 348,984</u>	<u>\$ 946,240</u>

The accompanying notes are an integral part of these financial statements

<u>Brantley Dam</u>	<u>ARRA</u>	<u>Total</u>
\$ 319,246	\$ -	\$ 973,711
-	-	1,000,000
-	-	247,703
<u>\$ 319,246</u>	<u>\$ -</u>	<u>\$ 2,221,414</u>
\$ 1,645	\$ -	\$ 24,735
-	-	115
<u>20,262</u>	<u>-</u>	<u>20,352</u>
<u>21,907</u>	<u>-</u>	<u>45,202</u>
297,339	-	1,583,195
		593,017
<u>297,339</u>	<u>-</u>	<u>2,176,212</u>
<u>\$ 319,246</u>	<u>\$ -</u>	<u>\$ 2,221,414</u>

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**STATE OF NEW MEXICO**

Carlsbad Irrigation District

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

October 31, 2011

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$ 2,176,212
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	508,446
Accrued compensated absences	<u>(9,632)</u>
Net assets of governmental activities	<u><u>\$ 2,675,026</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 Ending October 31, 2011

	Oil and Gas	Water Salvage	Ft. Sumner Dam
<i>Revenues:</i>			
Royalties and rental income	\$ 410,035	\$ -	\$ -
Intergovernmental			
Federal capital grants	-	-	-
State operating grants	-	592,856	27,565
Miscellaneous	-	-	-
<i>Total revenues</i>	410,035	592,856	27,565
<i>Expenditures:</i>			
<i>Current:</i>			
General government	-	-	-
Public safety	-	-	-
Public works	46,281	366,048	74,565
<i>Total expenditures</i>	46,281	366,048	74,565
<i>Excess (deficiency) of revenues over expenditures</i>	363,754	226,808	(47,000)
<i>Net change in fund balance</i>	363,754	226,808	(47,000)
<i>Fund balance - beginning of year</i>	229,263	121,237	984,811
<i>Fund balance - end of year</i>	\$ 593,017	\$ 348,045	\$ 937,811

The accompanying notes are an integral part of these financial statements

<u>Brantley Dam</u>	<u>ARRA</u>	<u>Total</u>
\$ -	\$ -	\$ 410,035
-	91,009	91,009
423,201	-	1,043,622
-	-	-
<u>423,201</u>	<u>91,009</u>	<u>1,544,666</u>
-	-	-
-	-	-
<u>287,827</u>	<u>91,009</u>	<u>865,730</u>
<u>287,827</u>	<u>91,009</u>	<u>865,730</u>
<u>135,374</u>	<u>-</u>	<u>678,936</u>
135,374	-	678,936
<u>161,965</u>	<u>-</u>	<u>1,497,276</u>
<u>\$ 297,339</u>	<u>\$ -</u>	<u>\$ 2,176,212</u>

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**STATE OF NEW MEXICO**

Carlsbad Irrigation District

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ending October 31, 2011

Exhibit B-2

Page 2 of 2

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

Net change in fund balances - total governmental funds \$ 678,936

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 (47,482)

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

Increase in accrued compensated absences (46)

Change in net assets of governmental activities \$ 631,408



STATE OF NEW MEXICO

Exhibit C-1

Carlsbad Irrigation District

Oil and Gas Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended October 31, 2011

	Budgeted Amounts		Actual (GAAP Budgetary Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues:</i>				
Royalties and rental income	\$ 60,000	\$ 394,203	\$ 410,035	\$ 15,832
Investment income	-	-	-	-
<i>Total revenues</i>	<u>60,000</u>	<u>394,203</u>	<u>410,035</u>	<u>15,832</u>
<i>Expenditures:</i>				
Current:				
Public works	-	47,000	46,281	719
<i>Total expenditures</i>	<u>-</u>	<u>47,000</u>	<u>46,281</u>	<u>719</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>60,000</u>	<u>347,203</u>	<u>363,754</u>	<u>16,551</u>
<i>Net change in fund balance</i>	-	-	363,754	363,754
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>229,263</u>	<u>229,263</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 593,017</u>	<u>\$ 593,017</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Exhibit C-2

Carlsbad Irrigation District

Water Salvage Fund

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended October 31, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
State operating grants	\$ 366,049	\$ 366,049	592,856	\$ 226,807
<i>Total revenues</i>	<u>366,049</u>	<u>366,049</u>	<u>592,856</u>	<u>226,807</u>
<i>Expenditures:</i>				
Current:				
Public works	366,049	366,049	366,048	1
<i>Total expenditures</i>	<u>366,049</u>	<u>366,049</u>	<u>366,048</u>	<u>1</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>226,808</u>	<u>226,808</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	226,808	226,808
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>121,237</u>	<u>121,237</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 348,045</u>	<u>\$ 348,045</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Exhibit C-3

Carlsbad Irrigation District

Ft. Sumner Dam

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended October 31, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Intergovernmental income:				
State operating grants	\$ 71,512	\$ 71,512	\$ 27,565	\$ (43,947)
<i>Total revenues</i>	<u>71,512</u>	<u>71,512</u>	<u>27,565</u>	<u>(43,947)</u>
<i>Expenditures:</i>				
Current:				
Public works	79,851	79,851	74,565	5,286
<i>Total expenditures</i>	<u>79,851</u>	<u>79,851</u>	<u>74,565</u>	<u>5,286</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(8,339)</u>	<u>(8,339)</u>	<u>(47,000)</u>	<u>(38,661)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	8,339	8,339	-	(8,339)
<i>Total other financing sources (uses)</i>	<u>8,339</u>	<u>8,339</u>	<u>-</u>	<u>(8,339)</u>
<i>Net change in fund balance</i>	-	-	(47,000)	(47,000)
<i>Fund balance - beginning of year</i>	-	-	984,811	984,811
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 937,811</u>	<u>\$ 937,811</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Exhibit C-4

Carlsbad Irrigation District

Brantley Dam

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended October 31, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Intergovernmental income:				
State operating grants	\$ 286,748	\$ 286,748	\$ 423,201	\$ 136,453
<i>Total revenues</i>	<u>286,748</u>	<u>286,748</u>	<u>423,201</u>	<u>\$ 136,453.00</u>
<i>Expenditures:</i>				
Current:				
Public works	287,827	287,827	287,827	-
<i>Total expenditures</i>	<u>287,827</u>	<u>287,827</u>	<u>287,827</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,079)</u>	<u>(1,079)</u>	<u>135,374</u>	<u>136,453</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	1,079	1,079	-	(1,079)
<i>Total other financing sources (uses)</i>	<u>1,079</u>	<u>1,079</u>	<u>-</u>	<u>(1,079)</u>
<i>Net change in fund balance</i>	-	-	135,374	135,374
<i>Fund balance - beginning of year</i>	-	-	161,965	161,965
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297,339</u>	<u>\$ 297,339</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Carlsbad Irrigation District

ARRA

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended October 31, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Federal capital grants	\$ 100,000	\$ 100,000	\$ 91,009	\$ (8,991)
<i>Total revenues</i>	<u>100,000</u>	<u>100,000</u>	<u>91,009</u>	<u>(8,991)</u>
<i>Expenditures:</i>				
Current:				
Public works	100,000	100,000	91,009	8,991
<i>Total expenditures</i>	<u>100,000</u>	<u>100,000</u>	<u>91,009</u>	<u>8,991</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	-	-
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Net Assets  
 Proprietary Funds  
 October 31, 2011

Exhibit D-1

	<u>Water Distribution Operations</u>
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents	\$ 121,114
Investments	9,325
Receivables:	
Other receivables	10,379
Inventory	-
Prepaid expenses	5,688
<i>Total current assets</i>	<u>146,506</u>
 <i>Noncurrent assets</i>	
Capital assets	15,275,105
Accumulated depreciation	<u>(10,523,912)</u>
<i>Total noncurrent assets</i>	<u>4,751,193</u>
 <i>Total Assets</i>	 <u><u>\$ 4,897,699</u></u>
 <i>Liabilities and Net Assets</i>	
<i>Liabilities</i>	
<i>Current liabilities</i>	
Accounts payable	\$ 10,219
Accrued payroll expenses	4,062
Accrued compensated absences	14,448
Due to other funds	227,351
<i>Total current liabilities</i>	<u>256,080</u>
 <i>Total liabilities</i>	 <u>256,080</u>
 <i>Net Assets</i>	
Invested in capital assets, net of related debt	4,751,193
Unrestricted net assets	<u>(109,574)</u>
 <i>Total Net Assets</i>	 <u>4,641,619</u>
 <i>Total Liabilities and Net Assets</i>	 <u><u>\$ 4,897,699</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Proprietary Funds  
 For the Year Ended October 31, 2011

Exhibit D-2

	<u>Water Distribution Operations</u>
<i>Operating revenues:</i>	
Charges for services	\$ 1,660,199
<i>Total operating revenues</i>	<u>1,660,199</u>
<i>Operating expenses:</i>	
General and administrative	116,512
Personnel services	1,262,082
Contractual services	122,626
Supplies and purchased power	32,104
Repairs and maintenance	168,546
Utilities	37,284
Depreciation	231,542
<i>Total operating expenses</i>	<u>1,970,696</u>
<i>Operating income (loss)</i>	<u>(310,497)</u>
<i>Non-operating revenues (expenses):</i>	
Royalties and rental income	10,300
Interest income	6,727
Gain/loss on disposal of capital assets	8,750
Miscellaneous	96,081
<i>Total non-operating revenues (expenses)</i>	<u>121,858</u>
<i>Change in net assets</i>	(188,639)
<i>Net Assets, beginning of year</i>	4,943,550
<i>Restatement</i>	(113,292)
<i>Net Assets, beginning of year as restated</i>	<u>4,830,258</u>
<i>Net assets, end of year</i>	<u><u>\$ 4,641,619</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended October 31, 2011

Exhibit D-3

	Water Distribution Operations
<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 1,682,709
Cash payments to employees for services	(1,297,914)
Cash payments to suppliers for goods and services	(441,068)
<i>Net cash provided (used) by operating activities</i>	(56,273)
 <i>Cash flows from noncapital financing activities:</i>	
Royalties and rental income	10,300
Miscellaneous income	96,081
Internal transfers and loans	64,828
<i>Net cash provided (used) by noncapital financing activities</i>	171,209
 <i>Cash flows from capital and related financing activities:</i>	
Acquisition of capital assets	(88,553)
Proceeds from sale of capital assets	8,750
<i>Net cash provided (used) by capital and related financing activities</i>	(79,803)
 <i>Cash flows from investing activities:</i>	
Interest on investments	6,727
Proceeds from investments	60,885
<i>Net cash provided by (used) from investing activities</i>	67,612
<i>Net increase (decrease) in cash and cash equivalents</i>	102,745
<i>Cash and cash equivalents - beginning of year</i>	131,661
<i>Restatement (Note 16)</i>	(113,292)
<i>Cash and cash equivalents - beginning of year</i>	18,369
<i>Cash and cash equivalents - end of year</i>	\$ 121,114
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (310,497)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	231,542
Changes in assets and liabilities	
Receivables	22,510
Accounts payable	(95,755)
Accrued payroll expenses	(36,063)
Accrued compensated absences	231
<i>Net cash provided (used) by operating activities</i>	\$ (56,273)

The accompanying notes are an integral part of these financial statements



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**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. Summary of Significant Accounting Policies**

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

The District was established as an agriculture irrigation district in cooperation with the United States Bureau of Reclamation. The District's governing body operates with a five member board of directors elected from the landholders and water users within the boundaries of the District. The District is responsible for the operation and maintenance of the water distributions system and improvements of 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 southwest of Malaga, New Mexico and include all area between the Pecos River and the Canal. Currently, the District has 25,055 water righted acres available for irrigation.

The summary of significant accounting policies of the District is presented to assist in the understanding of the District's financial statements. The financial statements and notes are the representation of the District's management who is responsible for their integrity and objectivity. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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 on or before 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, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance. The more significant of the District's accounting policies are described below.

**A. Financial Reporting Entity**

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No.'s 14 and 39.

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.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. Summary of Significant Accounting Policies (continued)**

**A. Financial Reporting Entity (continued)**

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 District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the District has no component units, and is not a component unit of another governmental agency.

**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 taxes and 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 recognized 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 is 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, even though the latter 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 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 imposed by the provider have been met.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. 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.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to the availability criterion. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, subject to the availability criterion. Only the portion of special 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.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the District's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of District facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Governmental funds are used to account for the District's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets and the servicing of general long-term debt.

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

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

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

The District reports the following major governmental funds:

The *Oil and Gas Special Revenue Fund* accounts for monies received from oil and gas royalties.

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

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

The *ARRA Fund* accounts for proceeds and the related expenses from a one-time grant from the State Fiscal Stabilization Fund.

The District reports its proprietary funds as major funds. Proprietary funds include:

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.

Additionally, the government reports the following fund types:

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Proprietary Funds* are used to account for activities similar to those found in the private sector where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

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

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

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. Summary of Significant Accounting Policies (continued)**

***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. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**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.

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

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

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.

**Inventory:** The District's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

**Prepaid Items:** 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.

**Restricted Assets:** Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. Summary of Significant Accounting Policies (continued)**

***D. Assets, Liabilities and Net Assets or Equity (continued)***

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Construction related interest is capitalized only in the proprietary funds.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

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

**Accrued Expenses:** Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through October 31, 2011, along with applicable PERA and Retiree Health Care.

**Deferred Revenue:** There are two types of deferred revenue. Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, then those assets must be offset by a corresponding liability for deferred revenue (commonly referred to as unearned revenue). The other type of deferred revenue is “unavailable revenue.” Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. It must also be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. Summary of Significant Accounting Policies (continued)**

***D. 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 accrued vacation pay incurred for the water distribution operations is recorded in the proprietary fund financial statements. The noncurrent balance, if any, is reported as long-term debt. A liability for compensated absences is reported in the governmental fund financial statements only if they have matured. In the fund financial statements, governmental funds anticipate that none of the liability will be liquidated with expendable available financial resources; therefore, none of the liability is reported

**Long-term Obligations:** In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. For bonds issued after the District implemented GASB 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**Net Assets or Fund Equity**

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

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

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

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

*Restricted Fund Balance:* At October 31, 2011, the restricted fund balance on the governmental funds balance sheet is made up of \$1,583,195 for the restricted purposes as defined by each fund.



**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 1. Summary of Significant Accounting Policies (continued)**

***E. Assets, Liabilities and Net Assets or Equity (continued)***

*Government-wide Statements*

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

- a. Invested in capital assets, net of related debt:  
Net assets invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net 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.
- 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.”

**Interfund Transactions:** Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the District’s financial statements include management’s estimate of depreciation on assets over their estimated useful lives, accrued compensated absences, and the allowance for uncollectible accounts.

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

**NOTE 2. Stewardship, Compliance and Accountability**

*Budgetary Information*

**Governmental – Special Revenue Funds**

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

- Master work schedules will, on a continuing basis, cover three (3) full years and show by fiscal years (November through October) each Project’s facilities that are to be operated and maintained by the District and the total estimated costs by feature. The master work schedule will be updated and submitted to the Bureau by May 1<sup>st</sup> 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

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
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- of the quarter.
- The master work schedule and detailed quarterly work schedules shall be prepared in advance of the proposed operation and maintenance work to permit review and approval by the Bureau of the proposed program. The District will not be obligated to do any of the proposed work until the Bureau has approved the master work schedule and the applicable quarterly work schedule, and funds are made available to the District.

The District does not prepare budgets for the special revenue funds other than the budgets on the quarterly work schedules. These budgets are prepared based on the accrual basis of accounting and are consistent with generally accepted accounting principles (GAAP). The budgetary information presented in these financial statements has been amended in accordance with the above procedures. Those amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
Oil and Gas	\$ 60,000	\$ 347,203
Water Salvage	-	-
Ft. Sumner Dam	(8,339)	(8,339)
Brantley Dam	(1,079)	(1,079)
ARRA	-	-

**NOTE 2. Stewardship, Compliance and Accountability (continued)**

**Business-type – Enterprise Fund**

The District prepares an annual operating budget for its enterprise fund, 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).

Formal budgetary integration is employed as a management control device during the year for the Proprietary Fund. The budget secures appropriations for only one year. Line items within the budget may be over-expended; however, it is not legally permissible to over-expend the budget in total at the fund level. The 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.

The budget is prepared on the GAAP basis and secure appropriation of funds for only one year. The budgetary information presented in these financial statements has been amended in accordance with the above procedures. These amendments resulted in the following changes:

	Change in Net Assets	
	Original Budget	Final Budget
Budgeted Fund:		
Water Distribution Operations	\$ (126,669)	\$ (130,595)

The accompanying Statement of Revenues, Expenses and Changes in Net Assets – Budget (GAAP) and Actual presents comparisons of the legally adopted budget with actual data on the budgetary basis.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
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**NOTE 3. Deposits and Investments**

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed State investment requirements as of October 31, 2011.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or are collateralized as required by statute.

The 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.

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

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. From December 31, 2010 through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the account balance and the ownership capacity of the funds. This coverage is available to all depositors, including consumers, businesses, and government entities. The unlimited coverage is separate from , and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

*Custodial Credit Risk – Deposits* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At October 31, 2011, \$1,512,940 of the District's bank balances of \$2,136,931 was exposed to custodial credit risk. \$1,512,940 was uninsured and collateralized by securities held by the pledging bank's trust department, not in the District's name and none was uninsured and uncollateralized.

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2011

**NOTE 3. Deposits and Investments (continued)**

	Carlsbad National Bank
Amount of deposits	\$ 2,136,931
FDIC Coverage	(623,991)
Total uninsured public funds	1,512,940
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	1,512,940
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	\$ 756,470
Pledged collateral	2,454,614
Over (under) collateralized	\$ 1,698,144

Reconciliation to the Statement of Net Assets

Unrestricted cash and cash equivalents per Exhibit A-1	\$ 1,094,825
Investments per Exhibit A-1	1,009,325
Less: Investments not considered deposits	(9,325)
Plus: Outstanding checks	42,706
Less: petty cash	(600)
Bank balance of deposits	\$ 2,136,931

**Investments**

The District's investments at October 31, 2011 include the following:

Investments	Rated	Weighted Average Maturity	Fair Value
Edward Jones	Not Rated	Less than 90 days	\$ 9,325

*Interest Rate Risk – Investments.* The District's policy related to interest rate risk with investments is to comply with the state as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2011

**NOTE 4. Receivables**

The District's receivables as of October 31, 2011 are as follows:

	<u>Proprietary Funds</u>
Other receivables:	
Licenses and fees	\$ 10,379

**NOTE 5. Interfund Receivables, Payables, and Transfers**

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of October 31, 2011 is as follows:

Due From Other Funds	Due to Other Funds	Amount
Oil and Gas	Water Distribution Operations	\$ 194,720
Water Salvage	Water Distribution Operations	32,631
Water Salvage	Ft. Sumner Dam	90
Water Salvage	Brantley Dam	20,262
		\$ 247,703

All interfund transactions are short-term and are repaid within a month.

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2011

**NOTE 6. Capital Assets**

A summary of capital assets and changes occurring during the year ended October 31, 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follow. Land and construction in progress are not subject to depreciation.

	Balance, October 31, 2010	Additions	Deletions	Balance, October 31, 2011
<b>Governmental activities:</b>				
Capital assets being depreciated:				
Buildings and improvements	\$ 27,432	\$ -	\$ -	\$ 27,432
Machinery and equipment	251,096	-	-	251,096
Water distribution system	539,244	-	-	539,244
	<u>817,772</u>	<u>-</u>	<u>-</u>	<u>817,772</u>
Total capital assets being depreciated				
Less accumulated depreciation:				
Buildings and improvements	11,034	1,015	-	12,049
Machinery and equipment	143,563	24,897	-	168,460
Water distribution system	107,247	21,570	-	128,817
	<u>261,844</u>	<u>47,482</u>	<u>-</u>	<u>309,326</u>
Total accumulated depreciation				
Total capital assets, net of depreciation	<u>\$ 555,928</u>	<u>\$ (47,482)</u>	<u>\$ -</u>	<u>\$ 508,446</u>

Depreciation expense for the year ended October 31, 2011, in the amount of \$47,482 was all charged to the public works function.

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2011

**NOTE 6. Capital Assets (continued)**

	<u>Balance, October 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, October 31, 2011</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,643,283	\$ -	\$ -	\$ 2,643,283
Capital assets being depreciated:				
Buildings and improvements	67,378	-	-	67,378
Machinery and equipment	644,882	88,553	80,559	652,876
Water distribution system	11,911,568	-	-	11,911,568
Total capital assets being depreciated	<u>12,623,828</u>	<u>88,553</u>	<u>80,559</u>	<u>12,631,822</u>
Total capital assets	<u>15,267,111</u>	<u>88,553</u>	<u>80,559</u>	<u>15,275,105</u>
Less accumulated depreciation:				
Buildings and improvements	64,717	75	-	64,792
Machinery and equipment	566,475	29,177	80,559	515,093
Water distribution system	9,741,737	202,290	-	9,944,027
Total accumulated depreciation	<u>10,372,929</u>	<u>231,542</u>	<u>80,559</u>	<u>10,523,912</u>
Total capital assets, net of depreciation	<u>\$ 4,894,182</u>	<u>\$ (142,989)</u>	<u>\$ -</u>	<u>\$ 4,751,193</u>

Depreciation expense charged to water distribution operations for the year ended October 31, 2011 was \$231,542.

**NOTE 7. Long-term Debt**

**Governmental Activities**

During the year ended October 31, 2011, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	<u>Balance, October 31, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, October 31, 2011</u>	<u>Due Within One Year</u>
Compensated absences	\$ 9,586	\$ 18,314	\$ 18,268	\$ 9,632	\$ 9,632

In prior years, compensated absences that are liquidated out of the governmental funds are liquidated from the Brantley Dam and Water Salvage special revenue funds.

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2011

**NOTE 7. Long-term Debt (continued)**

**Business-Type Activities**

During the year ended October 31, 2011, the following changes occurred in the liabilities reported in the proprietary funds statement of net assets:

	Balance, October 31, 2010	Additions	Retirements	Balance, October 31, 2011	Due Within One Year
Compensated absences	\$ 14,217	\$ 27,632	\$ 27,401	\$ 14,448	\$ 14,448

In prior years, compensated absences that are liquidated out of proprietary funds are liquidated from the water distribution operations.

**NOTE 8. PERA Pension Plan**

*Plan Description.* Substantially all of the District of Ruidoso’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*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 in State Statute under Chapter 10, Article 11, and NMSA 1978. The requirements may be amended by acts of the legislature. The District joined PERA in November 2005. Therefore, there are not any required contributions for the year ended October 31, 2006. The District’s contributions to PERA for the fiscal years ending October 31, 2011, 2010, and 2009 were \$67,465, \$64,638, and \$56,652 respectively.

**NOTE 9. Post-Employment Benefits – State Retiree Health Care Plan**

The Retiree Health Care Act, Chapter IV, Article 7C, NMSA 1978 provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The District has elected not to participate in the post-employment health insurance plan.

**NOTE 10. Contingent Liabilities**

The District is party to various claims and lawsuits in the normal course of business. As of the date of this report possible outcomes and liabilities associated with these claims and lawsuits were unable to be determined.



**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 11. Federal and State Grants**

In the normal course of operations, the District receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not expected to be material.

**NOTE 12. Concentrations**

Approximately 60% 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.

The District also depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the District is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and federal and State appropriations

**NOTE 13. Subsequent Pronouncements**

In November 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangement*, effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The District is analyzing the effects that this pronouncement will have on their financial statements.

In December 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations,
2. Accounting Principles Board Opinions, and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The District is analyzing the effects that this pronouncement will have on their financial statements.

In June 2011 the Governmental Accounting Standards Board (GASB) issued GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The District is analyzing the effects that this pronouncement will have on their financial statements.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2011

**NOTE 13. Subsequent Pronouncements (continued)**

In April 2011 the Financial Accounting Standards Board (FASB) issued FASB Codification Accounting Standards Update No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*, effective for periods beginning on or after December 15, 2011. The main objective of this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The District is analyzing the effects that this pronouncement will have on their financial statements.

**NOTE 14. Restricted Net Assets**

The government-wide statement of net assets reports \$2,166,580 of restricted net assets, all of which is restricted by enabling legislation referred to in the special revenue fund descriptions on page 36.

**NOTE 15. Risk Management**

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

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

At October 31, 2011, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Carlsbad Irrigation District.

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

**NOTE 16. Restatement**

In prior years, certain cash and investment accounts were improperly divided among the proprietary and special revenue funds. This resulted in a restatement of net assets in the Water Distributions Operations Proprietary Fund and of the Business Type activities of \$113,292.

**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Water Distribution Operations Proprietary Fund  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (GAAP Budgetary Basis) and Actual  
 For the Year Ended October 31, 2011

Statement A-1

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable)
<i>Operating revenues:</i>				
Charges for services	\$ 1,627,762	\$ 1,627,762	\$ 1,660,199	\$ 32,437
<i>Total operating revenues</i>	<u>1,627,762</u>	<u>1,627,762</u>	<u>1,660,199</u>	<u>32,437</u>
<i>Operating expenses:</i>				
General and administrative	150,931	152,154	116,512	35,642
Personnel services	1,239,850	1,240,100	1,262,082	(21,982)
Contractual services	145,100	145,100	122,626	22,474
Supplies and purchased power	69,800	69,800	32,104	37,696
Repairs and maintenance	191,500	193,953	168,546	25,407
Utilities	36,750	36,750	37,284	(534)
Miscellaneous	-	-	-	-
<i>Total operating expenses</i>	<u>1,833,931</u>	<u>1,837,857</u>	<u>1,739,154</u>	<u>98,703</u>
<i>Operating income (loss)</i>	<u>(206,169)</u>	<u>(210,095)</u>	<u>(78,955)</u>	<u>131,140</u>
<i>Non-operating revenues (expenses):</i>				
Royalties and rental income	8,600	8,600	10,300	1,700
Interest income	6,500	6,500	6,727	227
Miscellaneous	59,400	59,400	96,081	36,681
<i>Total non-operating revenues (expenses)</i>	<u>74,500</u>	<u>74,500</u>	<u>113,108</u>	<u>36,908</u>
<i>Change in net assets</i>	(126,669)	(130,595)	42,903	171,798
Designated cash	126,669	130,595	-	(130,595)
<i>Total net assets, beginning of year</i>	-	-	4,943,550	4,943,550
<i>Restatement</i>	-	-	(113,292)	(113,292)
<i>Total net assets, beginning of year as restated</i>	<u>-</u>	<u>-</u>	<u>4,830,258</u>	<u>4,830,258</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,873,161</u>	<u>\$ 5,002,056</u>
<i>Change in net assets, above</i>			\$ 42,903	
Depreciation			<u>(231,542)</u>	
<i>Change in net assets, Exhibit D-2</i>			<u>\$ (188,639)</u>	

The accompanying notes are an integral part of these financial statements

**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Schedule of Deposit and Investment Accounts  
 October 31, 2011

Schedule I

Bank Account Type/Name	Deposits	Investments	Totals
	Carlsbad National Bank	Edward Jones	
O&M	\$ 121,642	\$ -	\$ 121,642
Travel	2,349	-	2,349
Money Management	39,228	-	39,228
Oil and Gas	412,224	-	412,224
Bureau of Reclamation	561,488	-	561,488
Certificate of Deposit	800,000	-	800,000
Certificate of Deposit	200,000	-	200,000
Money Market	-	28,603	28,603
<b>Total on deposit</b>	<b>2,136,931</b>	<b>28,603</b>	<b>2,165,534</b>
Reconciling items	(42,706)	(19,278)	(61,984)
Reconciled balance	<b>\$ 2,094,225</b>	<b>\$ 9,325</b>	<b>2,103,550</b>
Petty cash			600
Total deposits and investments			<b>\$ 2,104,150</b>
Total unrestricted cash and cash equivalents per Exhibit A-1			\$ 1,094,825
Total investments per exhibit A-1			1,009,325
Total deposits and investments			<b>\$ 2,104,150</b>

See accompanying independent auditors' report

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Schedule of Collateral Pledged By Depository  
 For Public Funds  
 October 31, 2011

Schedule II

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at October 31, 2011	Location of Safekeeper
<b>Carlsbad National Bank</b>					
	FNMA POOL AH4468	2/1/2026	3138A56E7	\$ 980,188	Federal Home Loan Bank Dallas, TX
	FNMA POOL 995642 ARM	6/1/2035	31416CBK1	1,474,426	Federal Home Loan Bank Dallas, TX
	Total Carlsbad National Bank			<u>2,454,614</u>	
	Total Pledged Collateral			<u>\$ 2,454,614</u>	

**COMPLIANCE SECTION**



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Accounting & Consulting Group, LLP  
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 Balderas  
New Mexico State Auditor  
To the President and Board of Directors  
Carlsbad Irrigation District  
Carlsbad, New Mexico

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparison for the major special revenue funds, and the aggregate remaining fund information of the Carlsbad Irrigation District (District) as of and for the year ended October 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents., and have issued our report thereon dated February 27, 2012. We were also engaged to audit the financial statements of each of the District's budgetary comparisons for the proprietary presented as supplementary information as of and for the year ended October 31, 2011 as listed in the table of contents. We qualified our opinion because we were unable to verify capital assets, accumulated depreciation and current year depreciation expense. 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC.

**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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 2007-2, FS 2007-9, and FS 2008-1, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Directors, the Office of the State Auditor, the New Mexico State Legislature, 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.

*Accounting & Consulting Group, L.L.P.*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
February 27, 2012

**FEDERAL FINANCIAL ASSISTANCE**

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Accounting & Consulting Group, LLP  
Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector Balderas  
New Mexico State Auditor  
The Office of Management and Budget and  
The Board of Directors  
Carlsbad Irrigation District  
Carlsbad, New Mexico

Compliance

We have audited the compliance of Carlsbad Irrigation District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2011. Carlsbad Irrigation District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Carlsbad Irrigation District's management. Our responsibility is to express an opinion on Carlsbad Irrigation 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 Carlsbad Irrigation 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 Carlsbad Irrigation District's compliance with those requirements.

In our opinion, 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, 2011.

Internal Control Over Compliance

The management of Carlsbad Irrigation District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Carlsbad Irrigation District's internal control over compliance with 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 Carlsbad Irrigation District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in 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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We noted no deficiencies in internal control over compliance that we consider to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item FA 2007-11, to be a significant deficiency.

Carlsbad Irrigation District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Carlsbad Irrigation District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Regents, others within Carlsbad Irrigation District, the audit committee, the State Auditor, the Higher Education Department, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
February 27, 2012

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended October 31, 2011

Schedule III

Federal Grantor Program Title	Federal CFDA Number	Federal or Pass Through Grant / Project Number	Federal Expenditures
<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>			
<b>U.S. Department of the Interior</b>			
Bureau of Reclamation			
Reclamation and Water Reuse Program *	15.504	9-07-40-R0910	\$ 668,686
<b>U.S. Department of Education</b>			
ARRA-State Fiscal Stabilization Fund	84.397		91,009
Total Expenditures of Federal Awards			<u>\$ 759,695</u>

\* Major Program

**Notes to Schedule of Expenditures of Federal Awards**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented on the accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. 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 this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Sub-recipients

The District did not provide any federal awards to sub-recipients during the year.



**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Schedule of Findings and Questioned Costs  
 October 31, 2011

**Section I – Summary of Audit Results**

*Financial Statements:*

- |  |           |
|--|-----------|
| 1. Type of auditors' report issued   | Qualified |
| 1. Internal control over financial reporting:                                    |           |
| a. Material weaknesses identified?   | Yes       |
| b. Significant deficiencies identified not considered to be material weaknesses? | No        |
| c. Noncompliance material to the financial statements noted?                     | No        |

*Federal Awards:*

- |   |                               |                 |        |                               |  |
|---|-------------------------------|-----------------|--------|-------------------------------|--|
| 1. Internal control over major programs:  |                               |                 |        |                               |  |
| a. Material weaknesses identified?  | No                            |                 |        |                               |  |
| b. Significant deficiencies identified not considered to be material weaknesses?  | Yes                           |                 |        |                               |  |
| 2. Type of auditors' report issued on compliance for major programs   | Unqualified                   |                 |        |                               |  |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   | No                            |                 |        |                               |  |
| 4. Identification of major programs:  |                               |                 |        |                               |  |
| <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">CFDA<br/>Number</td> <td style="text-align: center; border-bottom: 1px solid black;">Federal Program</td> </tr> <tr> <td style="text-align: center;">15.504</td> <td style="text-align: center;">Bureau of Reclamation Program</td> </tr> </table> | CFDA<br>Number                | Federal Program | 15.504 | Bureau of Reclamation Program |  |
| CFDA<br>Number  | Federal Program               |                 |        |                               |  |
| 15.504  | Bureau of Reclamation Program |                 |        |                               |  |
| 5. Dollar threshold used to distinguish between type A and type B programs:   | \$300,000                     |                 |        |                               |  |
| 6. Auditee qualified as low-risk auditee?   | No                            |                 |        |                               |  |

**Section II – Financial Statement Findings and Questioned Costs**

**A. Financial Statement Findings**

**FS 2007-2 Capital Assets (Material Weakness)**

Condition

The District is required to be compliant with GASB 34. 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, 2011.

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.

Views of Responsible Officials and Planned Corrective Actions

All capital assets 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 the capital asset list.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS 2007-9 Deficiencies in Internal Controls over Financial Reporting (Material Weakness)**

Condition

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

Criteria

According to SAS No. 115 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 115 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.

Views of Responsible Officials and Planned Corrective Actions

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

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**A. Financial Statement Findings (continued)**

**FS 2008-1 Deficiencies in Internal Control Structure Design, Operation, and Oversight (Material Weakness)**

Condition

The District does not have a comprehensive documented internal control structure. We noted the following areas in which the District does not have sufficient key internal controls in place:

- Material journal entries were required for cash, accounts receivable, accrued payroll and accounts payable.
- Management has not documented practices for the identification or risks affecting the entity.
- Management has not documented an appropriate fraud risk assessment and monitoring process.
- Management does not monitor controls over financial reporting through independent evaluations and ongoing monitoring.

Criteria

*The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 114 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 114 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect

Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause

The District does not have documented policies in place to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 114 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation

We recommend that the Carlsbad Irrigation District ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions

While CID does not, at the present, have formalized written procedures and practices in place to address the conditions listed, we do utilize many compensating practices and procedures to provide oversight, control and mitigate risks to CID. During 2012, the CID Board of Directors will adopt documented policies, practices and procedures based on a comprehensive internal control structure and financial reporting process, such as the COSO model, to strengthen these areas.

**Section II – Financial Statement Findings and Questioned Costs (continued)**

**B. Federal Awards Findings**

**FA 2007-11 Failure to Submit the Data Collection Form in a Timely Manner (Significant Deficiency)**

Federal Program Information

Funding Agency: U.S. Department of Interior  
Title: Reclamation and Water Reuse Program  
CFDA Number: 15.504  
Award Number: 9-07-40-R0910  
Award Period: 11/01/2010-10/31/2011

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.

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.

Questioned Costs

None

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.

Views of Responsible Officials and Planned Corrective Actions

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

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Schedule of Findings and Questioned Costs  
October 31, 2011

**Section III – Schedule of Prior Year Audit Findings**

FS 2006-02	Expenditures Exceed Budgeted Appropriations	Resolved
FS 2007-1	Late Report	Resolved
FS 2007-2	Capital Assets	Revised and Repeated
FS 2007-5	Accounting Records	Resolved
FS 2007-6	Capital Asset Inventory Count	Resolved
FS 2007-9	Deficiencies in Internal Control over Financial Reporting	Revised and Repeated
FS 2008-1	Deficiencies in Internal Control Structure Design, Operation, and Oversight	Revised and Repeated
FA 2007-11	Failure to Submit the Data Collection Form in a Timely Manner – Compliance Requirement	Revised and Repeated
FA 2008-1	Controls over Preparation of Financial Statements	Resolved

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Other Disclosures  
October 31, 2011

**Exit Conference**

An exit conference was held on February 27, 2012. In attendance were the following:

**Representing the Carlsbad Irrigation District:**

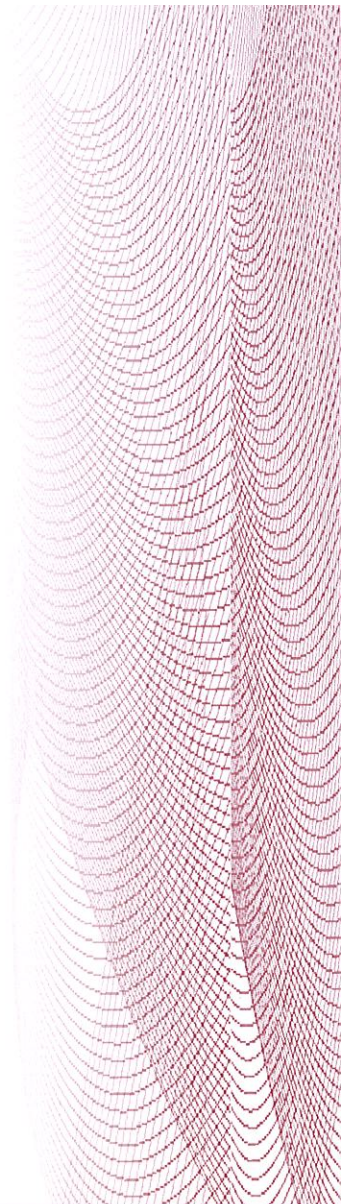
Charles Jurva	President
Dudley Jones	District Manager
Shirley Talbot	Bookkeeper

**Representing Accounting & Consulting Group, LLP:**

Jeff McWhorter, CPA	Partner
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**Auditor Prepared Financial Statements**

Although it would be preferred and desirable for the District to prepare its own financial statements, the District's personnel did not have the time to prepare them. Accounting & Consulting Group, LLP prepared the financial statements of the Carlsbad Irrigation District from the original books and records provided to them by the management of the District.



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