

**Accounting & Consulting Group, LLP**

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Certified Public Accountants

STATE OF NEW MEXICO  
CARLSBAD IRRIGATION DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED OCTOBER 31, 2012





**STATE OF NEW MEXICO**  
**CARLSBAD IRRIGATION DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**OCTOBER 31, 2012**

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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
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Carlsbad Irrigation District  
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STATE OF NEW MEXICO  
Carlsbad Irrigation District  
Official Roster  
October 31, 2012

<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

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**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 have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for each major special revenue fund, and the aggregate remaining fund information of the Carlsbad Irrigation District (District) as of and for the year ended October 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the proprietary funds presented as supplementary information as of and for the year ended October 31, 2012, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of October 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the major special revenue funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons for the proprietary funds of the District as of October 31, 2012, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparisons referred to above present fairly, in all material respects, the respective budgetary basis of accounting as prescribed in the New Mexico Administrative Code.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by that missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying Schedule of Expenditures of Federal Awards is presented for 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 financial statements. The accompanying financial information listed as supporting Schedules I through II in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
March 29, 2013

**BASIC  
FINANCIAL STATEMENTS**

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## STATE OF NEW MEXICO

Exhibit A-1

Carlsbad Irrigation District

Statement of Net Assets

October 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 237,836	\$ 310,741	\$ 548,577
Investments	1,000,000	400,000	1,400,000
Receivables:			
Other receivables	-	17,513	17,513
Prepaid expenses	-	6,282	6,282
Other current assets	-	250	250
Total current assets	<u>1,237,836</u>	<u>734,786</u>	<u>1,972,622</u>
Noncurrent assets			
Capital assets	806,300	15,501,367	16,307,667
Less: accumulated depreciation	<u>(350,983)</u>	<u>(10,788,373)</u>	<u>(11,139,356)</u>
Total noncurrent assets	<u>455,317</u>	<u>4,712,994</u>	<u>5,168,311</u>
Total assets	<u>\$ 1,693,153</u>	<u>\$ 5,447,780</u>	<u>\$ 7,140,933</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 12,623	\$ 69,857	\$ 82,480
Accrued payroll expenses	-	17,602	17,602
Accrued compensated absences	8,412	12,618	21,030
Total current liabilities	<u>21,035</u>	<u>100,077</u>	<u>121,112</u>
Total liabilities	<u>21,035</u>	<u>100,077</u>	<u>121,112</u>
<b>Net Assets</b>			
Invested in capital assets	455,317	4,712,994	5,168,311
Restricted for: (Note 15)			
Other purposes	1,216,801	-	1,216,801
Unrestricted	-	634,709	634,709
Total net assets	<u>1,672,118</u>	<u>5,347,703</u>	<u>7,019,821</u>
Total liabilities and net assets	<u>\$ 1,693,153</u>	<u>\$ 5,447,780</u>	<u>\$ 7,140,933</u>

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Activities  
 For the Year Ended October 31, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>		
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
Public works	\$ 745,457	\$ -	\$ 315,000
<i>Total governmental activities</i>	<u>745,457</u>	<u>-</u>	<u>315,000</u>
<b>Business-type Activities:</b>			
Water distribution operations	<u>1,902,793</u>	<u>1,606,634</u>	<u>-</u>
<i>Total primary government</i>	<u>\$ 2,648,250</u>	<u>\$ 1,606,634</u>	<u>\$ 315,000</u>
<b>General Revenues:</b>			
Royalties and rental income			
Investment income			
Miscellaneous income			
Transfers			
Total general revenues and transfers			
Change in net assets			
Net assets, beginning			
Reclassified (Note 18)			
Restatement (Note 17)			
Net assets, beginning as restated			
Net assets, ending			

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
Primary Government		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (430,457)	\$ -	\$ (430,457)
<u>(430,457)</u>	<u>-</u>	<u>(430,457)</u>
<u>-</u>	<u>(296,159)</u>	<u>(296,159)</u>
<u>(430,457)</u>	<u>(296,159)</u>	<u>(726,616)</u>
-	202,769	202,769
15,052	9,825	24,877
-	43,885	43,885
<u>53,434</u>	<u>(53,434)</u>	<u>-</u>
<u>68,486</u>	<u>203,045</u>	<u>271,531</u>
(361,971)	(93,114)	(455,085)
2,675,026	4,641,619	7,316,645
(593,017)	593,017	-
<u>(47,920)</u>	<u>206,181</u>	<u>158,261</u>
<u>2,034,089</u>	<u>5,440,817</u>	<u>7,474,906</u>
<u>\$ 1,672,118</u>	<u>\$ 5,347,703</u>	<u>\$ 7,019,821</u>

**STATE OF NEW MEXICO**

Carlsbad Irrigation District

Balance Sheet

Governmental Funds

October 31, 2012

	<u>Water Salvage</u>	<u>Ft. Sumner Dam</u>	<u>Brantley Dam</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 7,196	\$ 102,146	\$ 110,761
Investments	-	800,000	200,000
<i>Total assets</i>	<u>\$ 7,196</u>	<u>\$ 902,146</u>	<u>\$ 310,761</u>
<i>Liabilities and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ -	\$ 6,656	\$ 5,967
<i>Total liabilities</i>	<u>-</u>	<u>6,656</u>	<u>5,967</u>
<i>Fund balances</i>			
Spendable			
Restricted	7,196	895,490	304,794
<i>Total fund balances</i>	<u>7,196</u>	<u>895,490</u>	<u>304,794</u>
<i>Total liabilities and fund balances</i>	<u>\$ 7,196</u>	<u>\$ 902,146</u>	<u>\$ 310,761</u>

Seven Rivers Wells	Total
\$ 17,733	\$ 237,836
<u>-</u>	<u>1,000,000</u>
<u>\$ 17,733</u>	<u>\$ 1,237,836</u>
<u>\$ -</u>	<u>\$ 12,623</u>
<u>-</u>	<u>12,623</u>
<u>17,733</u>	<u>1,225,213</u>
<u>17,733</u>	<u>1,225,213</u>
<u>\$ 17,733</u>	<u>\$ 1,237,836</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, 2012

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	\$ 1,225,213
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	455,317
Accrued compensated absences	<u>(8,412)</u>
Net assets of governmental activities	<u><u>\$ 1,672,118</u></u>

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended October 31, 2012

	<u>Water Salvage</u>	<u>Ft. Sumner Dam</u>	<u>Brantley Dam</u>
<i>Revenues:</i>			
Intergovernmental			
State operating grants	\$ -	\$ -	\$ 295,000
Investment income	15,052	-	-
<i>Total revenues</i>	<u>15,052</u>	<u>-</u>	<u>295,000</u>
<i>Expenditures:</i>			
<i>Current:</i>			
Public works	284,278	85,428	327,895
Capital outlay	-	-	8,969
<i>Total expenditures</i>	<u>284,278</u>	<u>85,428</u>	<u>336,864</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(269,226)</u>	<u>(85,428)</u>	<u>(41,864)</u>
<i>Other financing sources (uses)</i>			
Transfers in	181,360	43,017	-
Transfers (out)	-	-	(170,943)
<i>Total other financing sources (uses)</i>	<u>181,360</u>	<u>43,017</u>	<u>(170,943)</u>
<i>Net change in fund balance</i>	(87,866)	(42,411)	(212,807)
<i>Fund balance - beginning of year (Note 18)</i>	348,045	937,811	297,339
<i>Restatement</i>	(252,983)	90	220,262
<i>Fund balance -beginning of year as restated</i>	<u>95,062</u>	<u>937,901</u>	<u>517,601</u>
<i>Fund balance - end of year</i>	<u>\$ 7,196</u>	<u>\$ 895,490</u>	<u>\$ 304,794</u>



Seven Rivers Wells	Total
\$ 20,000	\$ 315,000
<u>-</u>	<u>15,052</u>
<u>20,000</u>	<u>330,052</u>
<u>2,267</u>	<u>699,868</u>
<u>-</u>	<u>8,969</u>
<u>2,267</u>	<u>708,837</u>
<u>17,733</u>	<u>(378,785)</u>
<u>-</u>	<u>224,377</u>
<u>-</u>	<u>(170,943)</u>
<u>-</u>	<u>53,434</u>
<u>17,733</u>	<u>(325,351)</u>
<u>-</u>	<u>1,583,195</u>
<u>-</u>	<u>(32,631)</u>
<u>-</u>	<u>1,550,564</u>
<u>\$ 17,733</u>	<u>\$ 1,225,213</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 Ended October 31, 2012

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 \$ (325,351)

Governmental funds report capital outlays as expenditures. However, in  
the statement of activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense:

Capital expenditures recorded in capital outlay 8,969  
Depreciation expense (46,809)

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

Decrease in accrued compensated absences 1,220

Change in net assets of governmental activities \$ (361,971)

**STATE OF NEW MEXICO**

Exhibit C-1

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, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
State operating grants	\$ 307,550	\$ 307,550	\$ -	\$ (307,550)
Investment income	-	-	15,052	15,052
<i>Total revenues</i>	<u>307,550</u>	<u>307,550</u>	<u>15,052</u>	<u>(292,498)</u>
<i>Expenditures:</i>				
Current:				
Public works	307,550	307,550	284,278	23,272
<i>Total expenditures</i>	<u>307,550</u>	<u>307,550</u>	<u>284,278</u>	<u>23,272</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(269,226)</u>	<u>(269,226)</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	181,360	181,360
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>181,360</u>	<u>181,360</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>(87,866)</u>	<u>(87,866)</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>348,045</u>	<u>348,045</u>
<i>Restatement</i>	<u>-</u>	<u>-</u>	<u>(252,983)</u>	<u>(252,983)</u>
<i>Fund balance - beginning of year as restated</i>	<u>-</u>	<u>-</u>	<u>95,062</u>	<u>95,062</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,196</u>	<u>\$ 7,196</u>

## STATE OF NEW MEXICO

Exhibit C-2

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, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
State operating grants	\$ 59,500	\$ 59,500	\$ -	\$ (59,500)
<i>Total revenues</i>	<u>59,500</u>	<u>59,500</u>	<u>-</u>	<u>(59,500)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Public works	33,550	33,550	85,428	(51,878)
<i>Total expenditures</i>	<u>33,550</u>	<u>33,550</u>	<u>85,428</u>	<u>(51,878)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>25,950</u>	<u>25,950</u>	<u>(85,428)</u>	<u>(111,378)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(25,950)	(25,950)	-	25,950
Transfers in	-	-	43,017	43,017
<i>Total other financing sources (uses)</i>	<u>(25,950)</u>	<u>(25,950)</u>	<u>43,017</u>	<u>68,967</u>
<i>Net change in fund balance</i>	-	-	(42,411)	(42,411)
<i>Fund balance - beginning of year</i>	-	-	937,811	937,811
<i>Restatement</i>	-	-	90	90
<i>Fund balance - beginning of year as restated</i>	-	-	937,901	937,901
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 895,490</u>	<u>\$ 895,490</u>

STATE OF NEW MEXICO

Exhibit C-3

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, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
State operating grants	\$ 307,500	\$ 307,500	\$ 295,000	\$ (12,500)
<i>Total revenues</i>	<u>307,500</u>	<u>307,500</u>	<u>295,000</u>	<u>\$ (12,500.00)</u>
<i>Expenditures:</i>				
Public works	307,500	307,500	327,895	(20,395)
Capital outlay	-	-	8,969	(8,969)
<i>Total expenditures</i>	<u>307,500</u>	<u>307,500</u>	<u>336,864</u>	<u>(29,364)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(41,864)</u>	<u>(41,864)</u>
<i>Other financing sources (uses)</i>				
Transfers out	-	-	(170,943)	(170,943)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(170,943)</u>	<u>(170,943)</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>(212,807)</u>	<u>(212,807)</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>297,339</u>	<u>297,339</u>
<i>Restatement</i>	<u>-</u>	<u>-</u>	<u>220,262</u>	<u>220,262</u>
<i>Fund balance - beginning of year as restated</i>	<u>-</u>	<u>-</u>	<u>517,601</u>	<u>517,601</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 304,794</u>	<u>\$ 304,794</u>

STATE OF NEW MEXICO

Exhibit C-4

Carlsbad Irrigation District

Seven Rivers Wells

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended October 31, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
State operating grants	\$ -	\$ -	\$ 20,000	\$ 20,000
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
<i>Expenditures:</i>				
Current:				
Public works	-	-	2,267	(2,267)
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>2,267</u>	<u>(2,267)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>17,733</u>	<u>17,733</u>
<i>Net change in fund balance</i>	-	-	17,733	17,733
<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>\$ 17,733</u>	<u>\$ 17,733</u>

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**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Net Assets  
 Proprietary Funds  
 October 31, 2012

Exhibit D-1

	<u>Water Distribution Operations</u>	<u>Oil and Gas</u>	<u>Total</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 100,909	\$ 209,832	\$ 310,741
Investments	-	400,000	400,000
Receivables:			
Other receivables	17,513	-	17,513
Prepaid expenses	6,282	-	6,282
Other current assets	250	-	250
<i>Total current assets</i>	<u>124,954</u>	<u>609,832</u>	<u>734,786</u>
<i>Noncurrent assets</i>			
Capital assets	15,501,367	-	15,501,367
Accumulated depreciation	(10,788,373)	-	(10,788,373)
<i>Total noncurrent assets</i>	<u>4,712,994</u>	<u>-</u>	<u>4,712,994</u>
<i>Total Assets</i>	<u>\$ 4,837,948</u>	<u>\$ 609,832</u>	<u>\$ 5,447,780</u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 69,857	\$ -	\$ 69,857
Accrued payroll expenses	17,602	-	17,602
Accrued compensated absences	12,618	-	12,618
<i>Total current liabilities</i>	<u>100,077</u>	<u>-</u>	<u>100,077</u>
<i>Total liabilities</i>	<u>100,077</u>	<u>-</u>	<u>100,077</u>
<i>Net Assets</i>			
Invested in capital assets, net of related debt	4,712,994	-	4,712,994
Unrestricted net assets	24,877	609,832	634,709
<i>Total Net Assets</i>	<u>4,737,871</u>	<u>609,832</u>	<u>5,347,703</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 4,837,948</u>	<u>\$ 609,832</u>	<u>\$ 5,447,780</u>

**STATE OF NEW MEXICO**  
**Carlsbad Irrigation District**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended October 31, 2012**

Exhibit D-2

	<u>Water Distribution Operations</u>	<u>Oil and Gas</u>	<u>Total</u>
<i>Operating revenues:</i>			
Charges for services	\$ 1,606,634	\$ -	\$ 1,606,634
<i>Total operating revenues</i>	<u>1,606,634</u>	<u>-</u>	<u>1,606,634</u>
<i>Operating expenses:</i>			
General and administrative	162,675	-	162,675
Personnel services	1,257,955	-	1,257,955
Contractual services	92,156	-	92,156
Supplies and equipment	30,627	-	30,627
Repairs and maintenance	105,187	-	105,187
Utilities	37,254	-	37,254
Depreciation	216,939	-	216,939
<i>Total operating expenses</i>	<u>1,902,793</u>	<u>-</u>	<u>1,902,793</u>
<i>Operating income (loss)</i>	<u>(296,159)</u>	<u>-</u>	<u>(296,159)</u>
<i>Non-operating revenues (expenses):</i>			
Royalties and rental income	9,633	193,136	202,769
Interest income	6,468	3,357	9,825
Miscellaneous	43,885	-	43,885
<i>Total non-operating revenues (expenses)</i>	<u>59,986</u>	<u>196,493</u>	<u>256,479</u>
<i>Other financing sources (uses)</i>			
Transfers in	-	15,042	15,042
Transfers (out)	(68,476)	-	(68,476)
<i>Total other financing sources (uses)</i>	<u>(68,476)</u>	<u>15,042</u>	<u>(53,434)</u>
<i>Change in net assets</i>	(304,649)	211,535	(93,114)
<i>Net Assets, beginning of year</i>	4,641,619	-	4,641,619
<i>Reclassified (Note 18)</i>	-	593,017	593,017
<i>Restatement (Note 17)</i>	400,901	(194,720)	206,181
<i>Net Assets, beginning of year as restated</i>	<u>5,042,520</u>	<u>398,297</u>	<u>5,440,817</u>
<i>Net assets, end of year</i>	<u>\$ 4,737,871</u>	<u>\$ 609,832</u>	<u>\$ 5,347,703</u>

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended October 31, 2012

Exhibit D-3

	Water Distribution Operations	Oil and Gas	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 1,599,250	\$ -	\$ 1,599,250
Cash payments to employees for services	(1,246,245)	-	(1,246,245)
Cash payments to suppliers for goods and services	<u>(368,855)</u>	<u>(13,927)</u>	<u>(382,782)</u>
<i>Net cash provided (used) by operating activities</i>	<u>(15,850)</u>	<u>(13,927)</u>	<u>(29,777)</u>
<i>Cash flows from noncapital financing activities:</i>			
Royalties and rental income	9,633	193,136	202,769
Miscellaneous income	43,885	-	43,885
Internal transfers and loans	<u>(68,476)</u>	<u>15,042</u>	<u>(53,434)</u>
<i>Net cash provided (used) by noncapital financing activities</i>	<u>(14,958)</u>	<u>208,178</u>	<u>193,220</u>
<i>Cash flows from capital and related financing activities:</i>			
Acquisition of capital assets	<u>(5,190)</u>	-	<u>(5,190)</u>
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(5,190)</u>	-	<u>(5,190)</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	6,468	3,357	9,825
Proceeds from investments	<u>9,325</u>	<u>(400,000)</u>	<u>(390,675)</u>
<i>Net cash provided by (used) from investing activities</i>	<u>15,793</u>	<u>(396,643)</u>	<u>(380,850)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(20,205)	(202,392)	(222,597)
<i>Cash and cash equivalents - beginning of year</i>	121,114	412,224	533,338
<i>Cash and cash equivalents - end of year</i>	<u>\$ 100,909</u>	<u>\$ 209,832</u>	<u>\$ 310,741</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	\$ (296,159)	\$ -	\$ (296,159)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	216,939	-	216,939
Changes in assets and liabilities			
Receivables	(7,134)	-	(7,134)
Prepaid expenses	(594)	-	(594)
Other current assets	(250)	-	(250)
Accounts payable	59,638	(13,927)	45,711
Accrued payroll expenses	13,540	-	13,540
Accrued compensated absences	<u>(1,830)</u>	-	<u>(1,830)</u>
<i>Net cash provided (used) by operating activities</i>	<u>\$ (15,850)</u>	<u>\$ (13,927)</u>	<u>\$ (29,777)</u>

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**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2012

**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, 2012

**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, 2012

**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, 2012

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

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.

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

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, 2012

**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, 2012

**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, 2012, 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, 2012

**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, 2012, the restricted fund balance on the governmental funds balance sheet is made up of \$1,225,213 for the restricted purposes as defined by each fund.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2012

**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.

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2012

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

- The detailed quarterly work schedules will identify each Project’s facilities that are to be operated and maintained by the District using Bureau funds, with a detailed description of work to be performed; equipment, materials and supplies to be purchased; and funds required during each month of the quarter.
- The master work schedule and detailed quarterly work schedules shall be prepared in advance of the proposed operation and maintenance work to permit review and approval by the Bureau of the proposed program. The District will not be obligated to do any of the proposed work until the Bureau has approved the master work schedule and the applicable quarterly work schedule, and funds are made available to the District.

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:		
Water Salvage	\$ -	\$ -
Ft. Sumner Dam	25,950	25,950
Brantley Dam	-	-
Seven Rivers Wells	-	-

**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	\$ (126,759)	\$ (126,759)
Oil and Gas	57,062	57,062

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  
Notes to Financial Statements  
October 31, 2012

**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, 2012.

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

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

Excess 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, 2012, \$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, 2012

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

	<u>Carlsbad National Bank</u>
Amount of deposits	\$ 1,969,027
Deposit Accounts covered by the "Dodd-Frank Deposit Insurance Provision"	(77,894)
FDIC Coverage	<u>(500,000)</u>
Total uninsured public funds	<u>1,391,133</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	<u>1,391,133</u>
Uninsured and uncollateralized	<u><u>\$ -</u></u>
Collateral requirement (50% of uninsured funds)	\$ 695,567
Pledged collateral	<u>4,310,483</u>
Over (under) collateralized	<u><u>\$ 3,614,917</u></u>
Reconciliation to the Statement of Net Assets	
Unrestricted cash and cash equivalents per Exhibit A-1	\$ 548,577
Investments per Exhibit A-1	1,400,000
Plus: Outstanding checks	22,324
Less: deposits in transit	(1,274)
Less: petty cash	<u>(600)</u>
Bank balance of deposits	<u><u>\$ 1,969,027</u></u>

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2012

**NOTE 4. Receivables**

The District's receivables as of October 31, 2012 are as follows:

	<b>Proprietary Funds</b>
Other receivables:	
Licenses and fees	\$ 17,513

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

Transfers have primarily been recorded when funds overdraw their share of pooled cash. The composition of transfers as of October 31, 2012 is as follows:

Transfers In	Transfers Out	Amount
Water Salvage	Water Distribution Operations	\$ 25,459
Water Salvage	Brantley Dam	155,901
Ft. Sumner	Water Distribution Operations	43,017
Oil and Gas	Brantley Dam	15,042
		\$ 239,419

All transfers are short-term and are repaid within a month.

**NOTE 6. Capital Assets**

A summary of capital assets and changes occurring during the year ended October 31, 2012, 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, 2011	Adjustments to Net Assets	Additions	Deletions	Balance, October 31, 2012
<b>Governmental activities:</b>					
Capital assets being depreciated:					
Buildings and improvements	\$ 27,432	\$ (16,119)	\$ 8,969	\$ -	\$ 20,282
Machinery and equipment	251,096	(2,122)	-	-	248,974
Water distribution system	539,244	(2,200)	-	-	537,044
Total capital assets being depreciated	817,772	(20,441)	8,969	-	806,300
Less accumulated depreciation:					
Buildings and improvements	12,049	(8,910)	430	-	3,569
Machinery and equipment	168,460	(2,185)	24,897	-	191,172
Water distribution system	128,817	5,943	21,482	-	156,242
Total accumulated depreciation	309,326	(5,152)	46,809	-	350,983
Total capital assets, net of depreciation	\$ 508,446	\$ (15,289)	\$ (37,840)	\$ -	\$ 455,317

Depreciation expense for the year ended October 31, 2012, in the amount of \$46,809 was all charged to the public works function.



**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2012

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

	Balance, October 31, 2011	Adjustments to Net Assets	Additions	Deletions	Balance, October 31, 2012
<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	310,222	5,190	-	382,790
Machinery and equipment	652,876	(92,379)	-	-	560,497
Water distribution system	11,911,568	3,229	-	-	11,914,797
Total capital assets being depreciated	12,631,822	221,072	5,190	-	12,858,084
Total capital assets	15,275,105	221,072	5,190	-	15,501,367
Less accumulated depreciation:					
Buildings and improvements	64,792	5,004	8,396	-	78,192
Machinery and equipment	515,093	(74,613)	39,407	-	479,887
Water distribution system	9,944,027	117,131	169,136	-	10,230,294
Total accumulated depreciation	10,523,912	47,522	216,939	-	10,788,373
Total capital assets, net of depreciation	\$ 4,751,193	\$ 173,550	\$ (211,749)	\$ -	\$ 4,712,994

Depreciation expense charged to water distribution operations for the year ended October 31, 2012 was \$216,939.

**NOTE 7. Long-term Debt**

**Governmental Activities**

During the year ended October 31, 2012, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

**Governmental Activities:**

	Balance, October 31, 2011	Additions	Retirements	Balance, October 31, 2012	Due Within One Year
Compensated absences	\$ 9,632	\$ 16,565	\$ 17,785	\$ 8,412	\$ 8,412

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, 2012

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

**Business-Type Activities**

During the year ended October 31, 2012, the following changes occurred in the liabilities reported in the proprietary funds statement of net assets:

**Business-Type Activities:**

	Balance, October 31, 2011	Additions	Retirements	Balance, October 31, 2012	Due Within One Year
Compensated absences	\$ 14,448	\$ 24,848	\$ 26,678	\$ 12,618	\$ 12,618

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

**NOTE 8. Deficit Fund Balance and Budget Noncompliance**

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

- A. Deficit fund balance of individual funds. No deficit fund balances existed for the year ended June 30, 2012.
- B. Excess of expenditures over appropriations. The District over expended its budget in the following funds:

Ft. Sumner Dam Fund	\$ 51,878
Brantley Dam Fund	29,364
Seven Rivers Wells Fund	2,264
<b>Total</b>	<b>\$ 83,506</b>

- C. Designated cash appropriations. No designated cash appropriations existed for the year ended June 30, 2012.

**NOTE 9. PERA Pension Plan**

*Plan Description.* Substantially all of the Carlsbad Irrigation District'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, 2012, 2011, and 2010 were \$68,256, \$67,465, and \$64,638 respectively.

**NOTE 10. 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.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2012

**NOTE 11. 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.

**NOTE 12. Federal and State Grants**

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

**NOTE 13. 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 14. 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, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the District in upcoming years.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Notes to Financial Statements  
October 31, 2012

**NOTE 14. Subsequent Pronouncements (continued)**

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.

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.

In March 2012, Statement No. 65 *Items Previously Reported as Assets and Liabilities*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In March 2012, Statement No. 66 *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In June 2012, Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statements No. 25*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In June 2012, Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statements No. 27*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

**NOTE 15. Restricted Net Assets**

The government-wide statement of net assets reports \$1,216,801 of restricted net assets, all of which is restricted by enabling legislation referred to in the special revenue fund descriptions on page 36.

**NOTE 16. Risk Management**

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

The District has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the District which exceeds the insurance coverage,

the District would not be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverages have not changed significantly from prior years and coverages are expected to be continued.

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Notes to Financial Statements  
 October 31, 2012

**NOTE 16. Risk Management (continued)**

At October 31, 2012, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Carlsbad Irrigation District.

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

**NOTE 17. Restatement**

**Fund Financial Statements:** Due to/ due from balances have been restated from prior year errors in the governmental funds on the Statement of Revenues, Expenditures and Changes in Fund Balances as follows:

Water Salvage	\$ (252,983)
Ft. Sumner Dam	90
Brentley Dam	<u>220,262</u>
<b>Fund Financial Restatement</b>	<u><u>\$ (32,631)</u></u>

In prior years, capital assets in business-type funds have been disclaimed on due to an unreliable capital asset listing. The district has provided a reliable capital asset listing and the general ledger was reconciled to this listing. This resulted in a restatement of net assets in proprietary funds as follows:

Water Distributions Operations	\$ 400,901
Oil and Gas	<u>(194,720)</u>
<b>Fund Financial Restatement</b>	<u><u>\$ 206,181</u></u>

**Government-Wide Statements:** In prior years, capital assets in the government-wide Statement of Activities have been disclaimed on due to an unreliable capital asset listing. The district has provided a reliable capital asset listing and the general ledger was reconciled to this listing. This resulted in a restatement of net assets in government-wide Statement of Activities of (\$15,289) resulting in a total restatement on the Statement of Activities of (\$47,920) for the governmental activities.

**NOTE 18. Fund Balance Restatement and Reclassification**

The District has changed the Oil and Gas Fund and it is now presented as a proprietary fund, the net effect on the beginning fund balance is \$593,017 to both the proprietary funds and the governmental funds.

*Governmental Funds*

Beginning Fund Balance	\$2,176,212
Oil and Gas Fund Beginning Fund Balance	<u>593,017</u>
<i>Adjusted Beginning Fund Balance</i>	<u><u>\$1,583,195</u></u>

**NOTE 19. Subsequent Events**

The date to which events occurring after October 31, 2012, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is March 29, 2013, which is the date on which the financial statements were issued.

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**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, 2012

Statement A-1

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable)
<i>Operating revenues:</i>				
Charges for services	\$ 1,624,800	\$ 1,624,800	\$ 1,606,634	\$ (18,166)
<i>Total operating revenues</i>	<u>1,624,800</u>	<u>1,624,800</u>	<u>1,606,634</u>	<u>(18,166)</u>
<i>Operating expenses:</i>				
General and administrative	237,409	237,409	162,675	74,734
Personnel services	1,269,300	1,269,300	1,257,955	11,345
Contractual services	100,000	100,000	92,156	7,844
Supplies and purchased power	88,300	88,300	30,627	57,673
Repairs and maintenance	78,500	78,500	105,187	(26,687)
Utilities	34,500	34,500	37,254	(2,754)
<i>Total operating expenses</i>	<u>1,808,009</u>	<u>1,808,009</u>	<u>1,685,854</u>	<u>122,155</u>
<i>Operating income (loss)</i>	<u>(183,209)</u>	<u>(183,209)</u>	<u>(79,220)</u>	<u>103,989</u>
<i>Non-operating revenues (expenses):</i>				
Royalties and rental income	10,200	10,200	9,633	(567)
Interest income	1,150	1,150	6,468	5,318
Miscellaneous	40,100	40,100	43,885	3,785
<i>Total non-operating revenues (expenses)</i>	<u>51,450</u>	<u>51,450</u>	<u>59,986</u>	<u>9,103</u>
Gain/loss on disposal of capital assets	5,000	5,000	-	(5,000)
Transfers out	-	-	(68,476)	(68,476)
<i>Capital grants and net transfers</i>	<u>5,000</u>	<u>5,000</u>	<u>(68,476)</u>	<u>(73,476)</u>
<i>Change in net assets</i>	<u>(126,759)</u>	<u>(126,759)</u>	<u>(87,710)</u>	<u>39,616</u>
Designated cash	126,759	126,759	-	(126,759)
<i>Total net assets, beginning of year</i>	-	-	4,641,619	4,641,619
<i>Restatement</i>	-	-	400,901	400,901
<i>Total net assets, beginning of year as restated</i>	<u>-</u>	<u>-</u>	<u>5,042,520</u>	<u>5,042,520</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,954,810</u>	<u>\$ 5,082,136</u>
<i>Change in net assets, above</i>			\$ (87,710)	
Depreciation			<u>(216,939)</u>	
<i>Change in net assets, Exhibit D-2</i>			<u>\$ (304,649)</u>	



## STATE OF NEW MEXICO

Statement A-2

Carlsbad Irrigation District

Oil and Gas Fund

Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (GAAP Budgetary Basis) and Actual  
 For the Year Ended October 31, 2012

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable)
<i>Non-operating revenues (expenses):</i>				
Royalties and rental income	\$ 57,000	\$ 57,000	\$ 193,136	\$ 136,136
Interest income	62	62	3,357	3,295
<i>Total non-operating revenues (expenses)</i>	<u>57,062</u>	<u>57,062</u>	<u>196,493</u>	<u>3,295</u>
Transfers in	-	-	15,042	15,042
<i>Net transfers</i>	<u>-</u>	<u>-</u>	<u>15,042</u>	<u>15,042</u>
<i>Change in net assets</i>	57,062	57,062	211,535	18,337
Designated cash	(57,062)	(57,062)	-	57,062
<i>Total net assets, beginning of year</i>	-	-	593,017	593,017
<i>Restatement</i>	-	-	(194,720)	(194,720)
<i>Total net assets, beginning of year as restated</i>			<u>398,297</u>	<u>398,297</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 609,832</u>	<u>\$ 416,634</u>
<i>Change in net assets, above</i>			\$ 211,535	
Depreciation			<u>-</u>	
<i>Change in net assets, Exhibit D-2</i>			<u>\$ 211,535</u>	

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**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Schedule of Deposit and Investment Accounts  
 October 31, 2012

Schedule I

Bank Account Type/Name	Deposits Carlsbad National Bank
O&M	\$ 75,110
Travel	2,784
Money Management	44,200
Oil and Gas	209,097
Bureau of Reclamation	237,836
Certificate of Deposit	200,000
Certificate of Deposit	800,000
Certificate of Deposit	400,000
Total on deposit	1,969,027
Reconciling items	(21,050)
Reconciled balance	\$ 1,947,977
Petty cash	600
Total deposits and investments	\$ 1,948,577
Total unrestricted cash and cash equivalents per Exhibit A-1	\$ 548,577
Total investments per exhibit A-1	1,400,000
Total deposits and investments	\$ 1,948,577

**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Schedule of Collateral Pledged By Depository  
 For Public Funds  
 October 31, 2012

Schedule II

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at October 31, 2012	Location of Safekeeper
<b>Carlsbad National Bank</b>					
	FNMA POOL AH4468	2/1/2026	3138A56E7	\$ 822,448	Federal Home Loan Bank Dallas, TX
	FNMA POOL 995642 ARM	6/1/2035	31416CBK1	1,150,392	Federal Home Loan Bank Dallas, TX
	FNMA POOL 555673 ARM	12/10/2040	31385XI57	1,319,196	Federal Home Loan Bank Dallas, TX
	FNMA POOL 188564 ARM	8/1/2041	3128UG3Y1	1,018,447	Federal Home Loan Bank Dallas, TX
	Total Carlsbad National Bank			<u>4,310,483</u>	
	Total Pledged Collateral			<u>\$ 4,310,483</u>	

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**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 have audited 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 29, 2013. We were also audited the financial statements of each of the District's budgetary comparisons for the proprietary funds presented as supplementary information as of and for the year ended October 31, 2012 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

Management of the District is responsible for establishing and maintaining effective 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 deficiency described in the accompanying schedule of findings and questioned costs as item FS 2007-2 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 2012-01, FS 2012-02, and FA 2007-11 to be significant deficiencies.

## 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, LLP

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
March 29, 2013

**FEDERAL FINANCIAL ASSISTANCE**

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

**INDEPENDENT AUDITORS' 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, 2012. 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, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major federal programs for the year ended October 31, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item FA 2007-11.

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.

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.

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item FA 2007-11. 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.

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 Directors, others within Carlsbad Irrigation District, the Office of the State Auditor, the New Mexico Legislature and its committees, 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  
March 29, 2012

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**STATE OF NEW MEXICO**  
 Carlsbad Irrigation District  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended October 31, 2012

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	\$ 664,183
Total Expenditures of Federal Awards			<u>\$ 664,183</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, 2012

**Section I – Summary of Audit Results**

*Financial Statements:*

- |  |             |
|--|-------------|
| 1. Type of auditors’ report issued   | Unqualified |
| 1. Internal control over financial reporting:                                    |             |
| a. Material weaknesses identified?   | Yes         |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes         |
| 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 (Repeated/Modified) - Material Weakness**

Condition

The following items, for which we either were not able to identify controls or controls were not being followed, were identified during audit testing of the capital assets balances:

1. The District expensed \$14,159 incurred to replace the roofs on two buildings verses capitalizing these costs.
2. The Districts capital asset records include a number of assets with capitalized costs below the State mandated \$5,000 threshold. Additionally, there was one current year addition for \$3,000.
3. The Districts capital asset records show an in-service date of October 31, 2011 for a building with a recorded cost of \$300,189, although the building has been occupied since 2009.
4. The Districts capital asset depreciation schedule did not accurately calculate current year depreciation or accumulated depreciation for the capital assets.

Criteria

NMAC Section 2.2.2.10.Y, Capital Asset Inventory, requires entities to capitalize only capital assets that cost over \$5,000. Entities are encouraged to maintain a separate accountability report for those items that cost \$5,000 or less.

Effect

The amounts for capital assets, accumulated depreciation, depreciation expense, and repairs and maintenance expense were not accurately reported prior to audit adjustments.

Cause

1. Management considered the expenditures for the roofs to be repairs of the buildings verses expenditures that would extend the useful lives of the buildings.
2. Although Management is aware of the State requirement to only capitalize items in excess of \$5,000, they feel the need to track other capital asset purchases below that threshold.
3. Because there were issues with the building, the final payment was not made until October 2011, and Management considered this to be the triggering event for capitalizing the building.
4. The spreadsheet used by the District had various errors but the primary cause was inaccurate beginning information from which the calculations were based.

Auditors' Recommendation

For items 1-3 we recommend first that Management follow State requirements and only including capital assets that are in excess of \$5,000 in the capital asset subledger that is used to support the capital asset balance on the financial statements, and use a separate detail to track the capital assets with costs of \$5,000 or less and which are expensed when incurred. We also recommend that Management consider consulting other municipalities with which they have relationships or obtain applicable reference materials that will assist them in determining the proper accounting treatment of capital assets.

For item 4, we recommend that Management consider obtaining a software solution specifically designed to track and calculate depreciation and accumulated depreciation for the capital assets. Absent obtaining a software solution, we recommend that management perform the necessary due diligence to correctly record the cost and in-service dates on the spreadsheet being used currently, making sure that depreciation on the assets is be calculated from the in-service dates for the applicable service lives of the assets, and that no assets are over depreciated.

Views of Responsible Officials and Planned Corrective Actions

For items 1-3 we will ensure that our capital asset policies are consistent with State requirements, and we will make additional effort in the future to record the capital assets consistent with accounting standards and State requirements.

In relation to item 4, we will look into the recommended software, but in the near term, we will update our current spreadsheet so that it is calculating depreciation accurately.

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

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

**FS 2012-1 Deficiencies in Internal Control Structure Design – Significant Deficiency**

Condition

The District's internal control structure is inadequate to identify and correct differences between approved pay rates for the Ditchrider employees and the actual rates being paid.

Criteria

Good accounting and human resource practices require employers to formally establish pay rates for employees and to ensure that employees are paid based on those formally established rates.

Effect

Ditchrider employees were being paid based on verbally communicated rates and not formally approved rates.

Cause

After formally approving all District pay rates, the Board of Directors decided that the Ditchrider position would continue to be paid at the previous rate. However, this decision was not formalized and the approved pay rate schedule continued to show a higher rate than what was actually being paid.

Auditors' Recommendation

Management and the Board of Directors should implement adequate internal controls to ensure that all pay rates are formally approved, and that the formally approved rates are used for the respective positions.

Views of Responsible Officials and Planned Corrective Actions

We concur with this, and have formally approved established written pay rates so this will not occur again. Individual personnel action forms have also been implemented to avoid this situation in the future.

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

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

**FS 2012-2 Expenditures in Excess of Budget – Significant Deficiency**

Condition

The District over expended its budget in the following funds:

Governmental Funds:

Ft. Sumner Dam Fund	\$51,878
Brantley Dam Fund	29,364
Seven Rivers Wells Fund	<u>2,267</u>
Total	<u>\$83,509</u>

Criteria:

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

Effect:

Improper management of budgets could create cash short falls.

Cause:

The District did not make appropriate budgetary adjustment requests and transfers to the funds mentioned in the condition, which would alleviate over-expenditure at year end.

Auditors' Recommendations:

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

Views of Responsible Officials and Planned Corrective Actions

CID is prevented by its' contract with the BOR from expending funds beyond the available funds in each fund category (Ft. Sumner Radial Gates, Brantley Dam and Seven Rivers Wells). While actual positive balances must be maintained in order to withdraw fund reimbursement to CID, we (CID Board) may not have approved expenditures beyond the initial CID Approved Budget amount. We will add this to our quarterly formal review and properly approve or increase budget item allowance as appropriate.

**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 (Repeated/Modified) - 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

The data collection form for the October 31, 2011 year end was not submitted to the Federal Audit Clearinghouse or to the applicable federal agencies within 30 days after receipt of the auditor's report 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 Audit 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 is that the District was not in compliance with OMB A-133 and was in violation of federal compliance standards.

Cause

There was a miscommunication between the District and the auditor as to the process, timing and respective responsibilities surrounding the completion and submission of the data collection form.

Auditors' Recommendation

The District and the audit firm will work together to ensure that respective parts of the data collection form are completed within the required timeline, thus ensuring compliance in the future.

Views of Responsible Officials and Planned Corrective Actions

We will follow up on this item this year and insure it is completed no later than April 30, 2013.

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Schedule of Findings and Questioned Costs  
October 31, 2012

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

FS 2007-2	Capital Assets	Revised and Repeated
FS 2007-9	Deficiencies in Internal Control over Financial Reporting	Resolved
FS 2008-1	Deficiencies in Internal Control Structure Design, Operation, and Oversight	Resolved
FA 2007-11	Failure to Submit the Data Collection Form in a Timely Manner – Compliance Requirement	Revised and Repeated

**STATE OF NEW MEXICO**  
Carlsbad Irrigation District  
Other Disclosures  
October 31, 2012

**Exit Conference**

An exit conference was held on March 29, 2013. In attendance were the following:

**Representing the Carlsbad Irrigation District:**

Dudley Jones  
Shirley Talbot

District Manager  
Bookkeeper

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

Shelley Olson

Supervisor

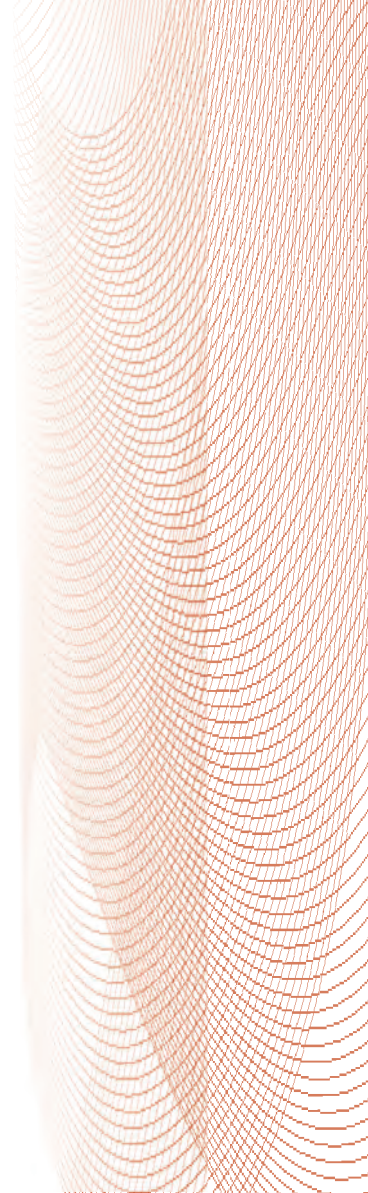
**Auditor Prepared Financial Statements**

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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