

State of New Mexico
Carlsbad Irrigation District

Annual Financial Report
October 31, 2013



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

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
 Carlsbad Irrigation District
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STATE OF NEW MEXICO
Carlsbad Irrigation District
Official Roster
October 31, 2013

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

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the Carlsbad Irrigation District (the "District"), as of and for the year ended October 31, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the respective budgetary comparisons for the proprietary funds presented as supplementary information, as defined by the Governmental Accounting Standards Board for the year ended October 31, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Carlsbad Irrigation District, as of October 31, 2013, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance 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 aspects, the respective budgetary comparisons for the proprietary funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the District's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The Schedule of Expenditures of Federal Awards as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, introductory section, and Supporting Schedules I through II required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Supporting Schedules I through II required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and Supporting Schedules I through II required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
March 27, 2014

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**BASIC
FINANCIAL STATEMENTS**

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STATE OF NEW MEXICO

Exhibit A-1

Carlsbad Irrigation District

Statement of Net Position

October 31, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 201,085	\$ 254,964	\$ 456,049
Investments	1,000,000	400,000	1,400,000
Receivables:			
Other receivables	-	19,729	19,729
Prepaid expenses	234	5,401	5,635
Total current assets	1,201,319	680,094	1,881,413
Noncurrent assets			
Capital assets	-	11,050,483	11,050,483
Less: accumulated depreciation	-	(7,323,699)	(7,323,699)
Total noncurrent assets	-	3,726,784	3,726,784
Total assets	\$ 1,201,319	\$ 4,406,878	\$ 5,608,197
Liabilities			
Current liabilities			
Accounts payable	\$ 8,503	\$ 67,627	\$ 76,130
Accrued payroll expenses	2,738	17,169	19,907
Accrued compensated absences	1,383	19,606	20,989
Other current liabilities	-	550	550
Total current liabilities	12,624	104,952	117,576
Total liabilities	12,624	104,952	117,576
Net Position			
Net investment in capital assets	-	3,726,784	3,726,784
Restricted for: (Note 15)			
Other purposes	1,188,695	-	1,188,695
Unrestricted	-	575,142	575,142
Total net position	1,188,695	4,301,926	5,490,621
Total liabilities and net position	\$ 1,201,319	\$ 4,406,878	\$ 5,608,197

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Statement of Activities
 For the Year Ended October 31, 2013

<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>	
Primary Government				
Governmental Activities:				
Public works	\$ 727,043	\$ -	\$ 506,250	\$ 95,810
<i>Total governmental activities</i>	<u>727,043</u>	<u>-</u>	<u>506,250</u>	<u>95,810</u>
Business-type Activities:				
Water distribution operations	1,910,178	1,613,123	-	-
<i>Total business-type activities</i>	<u>1,910,178</u>	<u>1,613,123</u>	<u>-</u>	<u>-</u>
<i>Total primary government</i>	<u>\$ 2,637,221</u>	<u>\$ 1,613,123</u>	<u>\$ 506,250</u>	<u>\$ 95,810</u>
General Revenues:				
Royalties and rental income				
Investment income				
Miscellaneous income				
Transfers				
Gain on disposal of capital assets				
Total general revenues and transfers				
Change in net position				
Net position, beginning				
Restatement (Note 17)				
Net position, beginning as restated				
Net position, ending				

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business Type Activities	Total
\$ (124,983)	\$ -	\$ (124,983)
(124,983)	-	(124,983)
-	(297,055)	(297,055)
-	(297,055)	(297,055)
(124,983)	(297,055)	(422,038)
-	83,656	83,656
10,222	12,327	22,549
-	66,644	66,644
86,655	(86,655)	-
-	11,001	11,001
96,877	86,973	183,850
(28,106)	(210,082)	(238,188)
1,672,118	5,347,703	7,019,821
(455,317)	(835,695)	(1,291,012)
1,216,801	4,512,008	5,728,809
\$ 1,188,695	\$ 4,301,926	\$ 5,490,621

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Balance Sheet
 Governmental Funds
 October 31, 2013

	Special Revenue Fund		
	Water Salvage	Ft. Sumner Dam	Brantley Dam
<i>Assets</i>			
Cash and cash equivalents	\$ 4,082	\$ 58,043	\$ 102,115
Investments	-	800,000	200,000
Prepaid expenses	-	-	234
<i>Total assets</i>	<u>\$ 4,082</u>	<u>\$ 858,043</u>	<u>\$ 302,349</u>
<i>Liabilities and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ -	\$ -	\$ 8,503
Accrued payroll expenses	-	-	2,738
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>11,241</u>
<i>Fund balances</i>			
Nonspendable for prepaid expenses	-	-	234
Spendable			
Restricted for:			
Water salvage program maintenance and operation	4,082	-	-
Rehabilitation of radial gates	-	858,043	-
Dam maintenance and operations	-	-	290,874
Wells maintenance and operation	-	-	-
<i>Total fund balances</i>	<u>4,082</u>	<u>858,043</u>	<u>291,108</u>
<i>Total liabilities and fund balances</i>	<u>\$ 4,082</u>	<u>\$ 858,043</u>	<u>\$ 302,349</u>

The accompanying notes are an integral part of these financial statements

Special Revenue Fund		
Seven Rivers		
Wells	WaterSMART	Total
\$ 36,845	\$ -	\$ 201,085
-	-	1,000,000
-	-	234
<u>\$ 36,845</u>	<u>\$ -</u>	<u>\$ 1,201,319</u>
\$ -	\$ -	\$ 8,503
-	-	2,738
-	-	11,241
-	-	234
-	-	4,082
-	-	858,043
-	-	290,874
36,845	-	36,845
<u>36,845</u>	<u>-</u>	<u>1,190,078</u>
<u>\$ 36,845</u>	<u>\$ -</u>	<u>\$ 1,201,319</u>

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STATE OF NEW MEXICO

Carlsbad Irrigation District

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

October 31, 2013

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$ 1,190,078
Certain liabilities, including bonds payable, notes payable, and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued compensated absences	<u>(1,383)</u>
Net position of governmental activities	<u>\$ 1,188,695</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended October 31, 2013

	Special Revenue Fund		
	Water Salvage	Ft. Sumner Dam	Brantley Dam
<i>Revenues:</i>			
Intergovernmental			
Federal operating grants	\$ -	\$ -	\$ 456,250
Federal capital grants	-	-	-
Investment income	-	-	10,222
<i>Total revenues</i>	-	-	466,472
<i>Expenditures:</i>			
Current:			
Public works	-	87,289	480,389
<i>Total expenditures</i>	-	87,289	480,389
<i>Excess (deficiency) of revenues over expenditures</i>	-	(87,289)	(13,917)
<i>Other financing sources (uses)</i>			
Transfers in	-	49,842	28,423
Transfers (out)	(3,114)	-	(28,192)
<i>Total other financing sources (uses)</i>	(3,114)	49,842	231
<i>Net change in fund balance</i>	(3,114)	(37,447)	(13,686)
<i>Fund balance - beginning of year</i>	7,196	895,490	304,794
<i>Fund balance - end of year</i>	\$ 4,082	\$ 858,043	\$ 291,108

The accompanying notes are an integral part of these financial statements

Special Revenue Fund		
Seven Rivers		
Wells	WaterSMART	Total
\$ 50,000	\$ -	\$ 506,250
-	95,810	95,810
-	-	10,222
<u>50,000</u>	<u>95,810</u>	<u>612,282</u>
<u>30,583</u>	<u>135,811</u>	<u>734,072</u>
<u>30,583</u>	<u>135,811</u>	<u>734,072</u>
<u>19,417</u>	<u>(40,001)</u>	<u>(121,790)</u>
827	133,694	212,786
<u>(1,132)</u>	<u>(93,693)</u>	<u>(126,131)</u>
<u>(305)</u>	<u>40,001</u>	<u>86,655</u>
19,112	-	(35,135)
<u>17,733</u>	<u>-</u>	<u>1,225,213</u>
<u>\$ 36,845</u>	<u>\$ -</u>	<u>\$ 1,190,078</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, 2013

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	\$ (35,135)
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	<u>7,029</u>
Change in net position of governmental activities	<u><u>\$ (28,106)</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Carlsbad Irrigation District
Statement of Net Position
Proprietary Funds
October 31, 2013

Exhibit C-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	\$ 97,476	\$ 157,488	\$ 254,964
Investments	-	400,000	400,000
Receivables:			
Other receivables	19,729	-	19,729
Prepaid expenses	<u>5,401</u>	<u>-</u>	<u>5,401</u>
<i>Total current assets</i>	<u>122,606</u>	<u>557,488</u>	<u>680,094</u>
<i>Noncurrent assets</i>			
Capital assets	11,050,483	-	11,050,483
Accumulated depreciation	<u>(7,323,699)</u>	<u>-</u>	<u>(7,323,699)</u>
<i>Total noncurrent assets</i>	<u>3,726,784</u>	<u>-</u>	<u>3,726,784</u>
<i>Total Assets</i>	<u><u>\$ 3,849,390</u></u>	<u><u>\$ 557,488</u></u>	<u><u>\$ 4,406,878</u></u>
<i>Liabilities and Net Position</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 67,627	\$ -	\$ 67,627
Accrued payroll expenses	17,169	-	17,169
Accrued compensated absences	19,606	-	19,606
Other current liabilities	<u>550</u>	<u>-</u>	<u>550</u>
<i>Total current liabilities</i>	<u>104,952</u>	<u>-</u>	<u>104,952</u>
<i>Total liabilities</i>	<u>104,952</u>	<u>-</u>	<u>104,952</u>
<i>Net Position</i>			
Net investment in capital assets	3,726,784	-	3,726,784
Unrestricted	<u>17,654</u>	<u>557,488</u>	<u>575,142</u>
<i>Total Net Position</i>	<u>3,744,438</u>	<u>557,488</u>	<u>4,301,926</u>
<i>Total Liabilities and Net Position</i>	<u><u>\$ 3,849,390</u></u>	<u><u>\$ 557,488</u></u>	<u><u>\$ 4,406,878</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Carlsbad Irrigation District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended October 31, 2013

Exhibit C-2

	Water Distribution Operations	Oil and Gas	Total
<i>Operating revenues</i>			
Charges for services	\$ 1,613,123	\$ -	\$ 1,613,123
<i>Total operating revenues</i>	<u>1,613,123</u>	<u>-</u>	<u>1,613,123</u>
<i>Operating expenses</i>			
General and administrative	87,930	-	87,930
Personnel services	1,307,881	-	1,307,881
Contractual services	132,211	-	132,211
Supplies and equipment	24,782	-	24,782
Repairs and maintenance	153,871	-	153,871
Utilities	40,487	-	40,487
Depreciation	163,016	-	163,016
<i>Total operating expenses</i>	<u>1,910,178</u>	<u>-</u>	<u>1,910,178</u>
<i>Operating (loss)</i>	<u>(297,055)</u>	<u>-</u>	<u>(297,055)</u>
<i>Non-operating revenues (expenses)</i>			
Royalties and rental income	59,270	24,386	83,656
Interest income	8,829	3,498	12,327
Gain on disposal of capital assets	11,001	-	11,001
Miscellaneous	58,988	7,656	66,644
<i>Total non-operating revenues (expenses)</i>	<u>138,088</u>	<u>35,540</u>	<u>173,628</u>
<i>Income (loss) before transfers</i>	(158,967)	35,540	(123,427)
Transfers in	213,170	-	213,170
Transfers (out)	(211,941)	(87,884)	(299,825)
<i>Change in net position</i>	<u>(157,738)</u>	<u>(52,344)</u>	<u>(210,082)</u>
<i>Net position, beginning of year</i>	4,737,871	609,832	5,347,703
<i>Restatement (Note 17)</i>	<u>(835,695)</u>	<u>-</u>	<u>(835,695)</u>
<i>Net position, beginning of year as restated</i>	<u>3,902,176</u>	<u>609,832</u>	<u>4,512,008</u>
<i>Net position, end of year</i>	<u>\$ 3,744,438</u>	<u>\$ 557,488</u>	<u>\$ 4,301,926</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Carlsbad Irrigation District
Statement of Cash Flows
Proprietary Funds
For the Year Ended October 31, 2013

Exhibit C-3

	Water Distribution Operations	Oil and Gas	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 1,611,707	\$ -	\$ 1,611,707
Cash payments to employees for services	(1,301,326)	-	(1,301,326)
Cash payments to suppliers for goods and services	(440,631)	-	(440,631)
<i>Net cash (used) by operating activities</i>	<u>(130,250)</u>	<u>-</u>	<u>(130,250)</u>
<i>Cash flows from noncapital financing activities:</i>			
Royalties and rental income	59,270	24,386	83,656
Miscellaneous income	58,988	7,656	66,644
Internal transfers and loans	1,229	(87,884)	(86,655)
<i>Net cash provided (used) by noncapital financing activities</i>	<u>119,487</u>	<u>(55,842)</u>	<u>63,645</u>
<i>Cash flows from capital and related financing activities:</i>			
Acquisition of capital assets	(12,500)	-	(12,500)
Proceeds from sale of capital assets	11,001	-	11,001
<i>Net cash (used) by capital and related financing activities</i>	<u>(1,499)</u>	<u>-</u>	<u>(1,499)</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	8,829	3,498	12,327
<i>Net cash provided by investing activities</i>	<u>8,829</u>	<u>3,498</u>	<u>12,327</u>
<i>Net (decrease) in cash and cash equivalents</i>	(3,433)	(52,344)	(55,777)
<i>Cash and cash equivalents - beginning of year</i>	<u>100,909</u>	<u>209,832</u>	<u>310,741</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 97,476</u>	<u>\$ 157,488</u>	<u>\$ 254,964</u>
<i>Reconciliation of operating (loss) to net cash (used) by operating activities:</i>			
Operating (loss)	\$ (297,055)	\$ -	\$ (297,055)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	163,016	-	163,016
Changes in assets and liabilities			
Receivables	(2,216)	-	(2,216)
Prepaid expenses	881	-	881
Accounts payable	(2,231)	-	(2,231)
Accrued payroll expenses	(433)	-	(433)
Accrued compensated absences	6,988	-	6,988
Other current liabilities	800	-	800
<i>Net cash provided (used) by operating activities</i>	<u>\$ (130,250)</u>	<u>\$ -</u>	<u>\$ (130,250)</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

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.

During the year ended October 31, 2013, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 60 through 63. GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The District does not have any Service Concession Arrangements. GASB Statement No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources

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 Statements No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. Blended component units, although legally separate entities, are in substance part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

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

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

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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 Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

In the government-wide Statement of Net Position, 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 position are reported in three parts – net invested in capital assets; restricted net position; and unrestricted net position.

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*.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements (continued)

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.

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.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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.

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 *WaterSMART Special Revenue Fund* accounts for the proceeds by the United States Department of Interior, Bureau of Reclamation to implement projects that save water, improve energy efficiency, address endangered species and other environmental issues, and to facilitate transfers to new uses. (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.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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.

D. *Assets, Liabilities and Net Position or Equity*

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

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

Investments for the District are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

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.

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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.

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 business-type activities column in the government-wide financial statements. In prior years, there were capital assets reported in the governmental activities, however, during the year ended October 31, 2013 the District performed a detail review of grant agreements with the Department of the Interior Bureau of Reclamation (“BOR”) and discovered that all assets purchased with funding provided by BOR were the property of the BOR and were to be returned upon the end of the contractual agreement. The District did not have the rights to the previously reported capital assets and recorded an adjustment to net position to remove the assets and related accumulated depreciation. 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, 2013, 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, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position 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 position. 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 Position or Fund Equity

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

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

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, 2013, the restricted fund balance on the governmental funds balance sheet is made up of \$1,190,078 for the restricted purposes as defined by each fund.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Government-wide Statements

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

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

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

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

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 1st 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, 2013

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). However, the budgets are not legally adopted by the Board of Directors of the District. Due to the budgets not being legally adopted or monitored by Board of Director, the budgetary statements for the special revenue funds have been omitted from these financial statements. The inclusion of the budget in the audit report would be misleading to the financial statements of the District for the year ended October 31, 2013.

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 Position	
	Original Budget	Final Budget
Budgeted Fund:		
Water Distribution Operations Fund	\$ (75,012)	\$ (91,812)
Oil and Gas Fund	\$ 60,350	\$ 60,350

The accompanying Statement of Revenues, Expenses and Changes in Net Position – 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, 2013

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, 2013.

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.

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account no longer will receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, all of the District's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

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, 2013, \$1,355,260 of the District's bank balances of \$1,855,260 was exposed to custodial credit risk. \$1,355,260 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, 2013

NOTE 3. Deposits and Investments (continued)

	<u>Carlsbad National Bank</u>
Amount of deposits	\$ 1,855,260
FDIC Coverage	<u>(500,000)</u>
Total uninsured public funds	<u>1,355,260</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	<u>1,355,260</u>
Uninsured and uncollateralized	<u><u>\$ -</u></u>
Collateral requirement (50% of uninsured funds)	\$ 677,630
Pledged collateral	<u>3,713,485</u>
Over (under) collateralized	<u><u>\$ 3,035,855</u></u>

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.

Reconciliation to the Statement of Net Position

Unrestricted cash and cash equivalents per Exhibit A-1	\$ 456,049
Investments per Exhibit A-1	1,400,000
Plus: Outstanding checks	1,732
Less: deposits in transit	(1,901)
Less: petty cash	<u>(600)</u>
Bank balance of deposits	<u><u>\$ 1,855,280</u></u>

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2013

NOTE 4. Receivables

The District's receivables as of October 31, 2013 are as follows:

	Proprietary Funds
Other receivables:	
Licenses and fees	\$ 19,729

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, 2013 is as follows:

Transfers In	Transfers Out	Amount
Water Distribution Operation	Oil & Gas	\$ 87,884
Water Distribution Operation	Water Salvage Special Revenue Fund	2,269
Ft. Sumner Dam Special Revenue Fund	Water Distribution Operation	40,101
Water Distribution Operation	Brantley Dam Special Revenue Fund	28,192
Water Distribution Operation	Seven Rivers Wells Special Revenue Fund	1,132
Water Distribution Operation	WaterSMART Special Revenue Fund	93,693
Ft. Sumner Dam Special Revenue Fund	Water Distribution Operation	9,741
Brantley Dam Special Revenue Fund	Water Distribution Operation	27,578
Brantley Dam Special Revenue Fund	Water Salvage Special Revenue Fund	845
Seven Rivers Wells Special Revenue Fund	Water Distribution Operation	827
WaterSMART Special Revenue Fund	Water Distribution Operation	133,694
	Total	\$ 425,956

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

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2013

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended October 31, 2013, 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, 2012	Adjustments to Net Position	Additions	Deletions	Balance, October 31, 2013
Governmental activities:					
Capital assets being depreciated:					
Buildings and improvements	\$ 20,282	\$ (20,282)	\$ -	\$ -	\$ -
Machinery and equipment	248,974	(248,974)	-	-	-
Water distribution system	537,044	(537,044)	-	-	-
Total capital assets being depreciated	806,300	(806,300)	-	-	-
Less accumulated depreciation:					
Buildings and improvements	3,569	(3,569)	-	-	-
Machinery and equipment	191,172	(191,172)	-	-	-
Water distribution system	156,242	(156,242)	-	-	-
Total accumulated depreciation	350,983	(350,983)	-	-	-
Total capital assets, net of depreciation	\$ 455,317	\$ (455,317)	\$ -	\$ -	\$ -

There was no depreciation expense for the year ended December 31, 2013.

See Note 17 for detail on the adjustments to net position.

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2013

NOTE 6. Capital Assets (continued)

	Balance, October 31, 2012	Adjustments to Net Position	Additions	Deletions	Balance, October 31, 2013
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 2,643,283	\$ -	\$ -	\$ -	\$ 2,643,283
Capital assets being depreciated:					
Buildings and improvements	382,790	12,029	-	-	394,819
Machinery and equipment	560,497	(111,351)	12,500	38,708	422,938
Water distribution system	11,914,797	(4,325,354)	-	-	7,589,443
Total capital assets being depreciated	12,858,084	(4,424,676)	12,500	38,708	8,407,200
Total capital assets	15,501,367	(4,424,676)	12,500	38,708	11,050,483
Less accumulated depreciation:					
Buildings and improvements	78,192	(17,145)	9,871	-	70,918
Machinery and equipment	479,887	(127,092)	35,874	38,708	349,961
Water distribution system	10,230,294	(3,444,745)	117,271	-	6,902,820
Total accumulated depreciation	10,788,373	(3,588,982)	163,016	38,708	7,323,699
Total capital assets, net of depreciation	\$ 4,712,994	\$ (835,694)	\$ (150,516)	\$ -	\$ 3,726,784

Depreciation expense charged to water distribution operations for the year ended October 31, 2013 was \$163,016.

The District disposed of assets during the year ended October 31, 2013 that were fully depreciated at the time of disposal. Although the assets were fully depreciated the District received \$11,001 in proceeds on the sale of the assets, which resulted in a gain on disposal of capital assets for the year ended October 31, 2013.

See Note 17 for detail on the adjustments to net position.

NOTE 7. Long-term Debt

Governmental Activities

During the year ended October 31, 2013, the following changes occurred in the liabilities reported in the government-wide statement of net position:

Governmental Activities:

	Balance, October 31, 2012	Additions	Retirements	Balance, October 31, 2013	Due Within One Year
Compensated absences	\$ 8,412	\$ 12,053	\$ 19,082	\$ 1,383	\$ 1,383

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, 2013

NOTE 7. Long-term Debt (continued)

Business-Type Activities

During the year ended October 31, 2013, the following changes occurred in the liabilities reported in the proprietary funds statement of net position:

Business-Type Activities:

	Balance, October 31, 2012	Additions	Retirements	Balance, October 31, 2013	Due Within One Year
Compensated absences	\$ 12,618	\$ 51,611	\$ 44,623	\$ 19,606	\$ 19,606

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. There were no deficit fund balances as of October 31, 2013.
- B. Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary legal level of controls is at the fund level. There were no funds that exceeded approved budgetary authority for the year ended October 31, 2013:
- C. Designated cash appropriations in excess of available balances. There were no funds in which the designated cash appropriations were in excess of available balances for the year ended October 31, 2013:

NOTE 9. Pension Plan – Public Employees Retirement Association

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 <http://www.pera.state.nm.us>.

Funding Policy. Plan members are required to contribute the following percentage of their gross salary: 8.50% for full-time employees. The District is required to contribute the following percentage of the gross covered salary: 7.00% for full-time employees. The contribution requirements of plan members and the District are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District’s contributions to PERA for the years ending October 31, 2013, 2012 and 2011 were \$69,340, \$68,256, and \$67,465, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

NOTE 10. Post-Employment Benefit – State Retiree Health Care Plan

Carlsbad Irrigation District did not participate in the Retiree Health Care Plan provided under the Retiree Health Care Act (10-7c-1 to 10-tc-17, NMSA 1978) during the year ended October 31, 2013.

NOTE 11. Contingent Liabilities

The District is party to various claims and lawsuits in the normal course of business. The maximum exposure of the District is not estimable as of October 31, 2013.

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 67% 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 March 2012, GASB 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 District will implement this standard during fiscal year October 31, 2014.

In March 2012, GASB 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 District will implement this standard during fiscal year October 31, 2014.

In June 2012, GASB Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement 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, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement 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 District will implement this standard during the fiscal year October 31, 2015.

In January 2013, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, Effective Date: The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively. The District is still evaluating how this standard will affect the District.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2013

NOTE 14. Subsequent Pronouncements (continued)

In April 2013, GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, Effective Date: The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. The District is still evaluating how this reporting standard will affect the District.

NOTE 15. Restricted Net Position

The government-wide statement of net position reports \$1,188,695 of restricted net position, all of which is restricted by enabling legislation referred to in the special revenue fund descriptions on page 38.

NOTE 16. Risk Management

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

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

At October 31, 2013, 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: The District performed an asset inventory count during the year ended October 31, 2013. The results of the inventory indicated that the District had capital assets purchased with federal funding from the Department of the Interior through the Bureau of Reclamation that are to be returned to the federal agency at the termination of the grant agreement. In addition, there were items that were no longer in possession of the District. Since the items are the property of the Bureau of Reclamation, they were improperly included in the financial statements of the District. The results of the inventory were that a net adjustment between capital assets and related accumulated depreciation was necessary to beginning net position. At October 31, 2013, the District recorded a re-statement in the Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position of (\$835,695).

Government-Wide Statements: The District performed an asset inventory count during the year ended October 31, 2013. The results of the inventory indicated that the District had capital assets purchased with federal funding that were improperly included in the capital assets balances. In addition, there were items that were no longer in possession of the District. The results of the inventory were that a net adjustment between capital assets and related accumulated depreciation was necessary to beginning net position. At October 31, 2013, the District recorded a re-statement in the Governmental Activities Statement of Activities of (\$455,317) and a re-statement in the Business-Type Activities Statement of Activities of (\$835,695) for a total re-statement in the Statement of Activities of (\$1,291,012).

NOTE 18. Subsequent Events

The date to which events occurring after October 31, 2013, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is March 27, 2013, which is the date on which the financial statements were issued.

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SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO

Statement A-1

Carlsbad Irrigation District
Water Distribution Operations Proprietary Fund
Statement of Revenues, Expenses and Changes in Net Position
Budget (GAAP Budgetary Basis) and Actual
For the Year Ended October 31, 2013

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable)
<i>Operating revenues</i>				
Charges for services	\$ 1,593,500	\$ 1,593,500	\$ 1,613,123	\$ 19,623
<i>Total operating revenues</i>	<u>1,593,500</u>	<u>1,593,500</u>	<u>1,613,123</u>	<u>19,623</u>
<i>Operating expenses</i>				
General and administrative	188,024	162,524	87,930	74,594
Personnel services	1,226,700	1,235,500	1,307,881	(72,381)
Contractual services	89,800	104,800	132,211	(27,411)
Supplies and purchased power	65,750	61,750	24,782	36,968
Repairs and maintenance	118,500	141,000	153,871	(12,871)
Utilities	34,500	34,500	40,487	(5,987)
<i>Total operating expenses</i>	<u>1,723,274</u>	<u>1,740,074</u>	<u>1,747,162</u>	<u>(7,088)</u>
<i>Operating income (loss)</i>	<u>(129,774)</u>	<u>(146,574)</u>	<u>(134,039)</u>	<u>12,535</u>
<i>Non-operating revenues (expenses)</i>				
Royalties and rental income	10,200	10,200	59,270	49,070
Interest income	4,562	4,562	8,829	4,267
Gain on disposal of capital assets	5,000	5,000	11,001	6,001
Miscellaneous	35,000	35,000	58,988	23,988
<i>Total non-operating revenues (expenses)</i>	<u>54,762</u>	<u>54,762</u>	<u>138,088</u>	<u>83,326</u>
<i>Income (loss) before transfers</i>	<u>(75,012)</u>	<u>(91,812)</u>	<u>4,049</u>	<u>95,861</u>
Transfers in	-	-	213,170	213,170
Transfers out	-	-	(211,941)	(211,941)
<i>Change in net position</i>	<u>(75,012)</u>	<u>(91,812)</u>	<u>5,278</u>	<u>97,090</u>
Designated cash	<u>75,012</u>	<u>91,812</u>	<u>-</u>	<u>(91,812)</u>
<i>Total net position, beginning of year</i>	<u>-</u>	<u>-</u>	<u>4,737,871</u>	<u>4,737,871</u>
<i>Restatement (Note 17)</i>	<u>-</u>	<u>-</u>	<u>(835,695)</u>	<u>(835,695)</u>
<i>Total net position, beginning of year as restated</i>	<u>-</u>	<u>-</u>	<u>3,902,176</u>	<u>3,902,176</u>
<i>Total net position, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,907,454</u>	<u>\$ 3,907,454</u>
<i>Change in net position, above</i>			\$ 5,278	
Depreciation			<u>(163,016)</u>	
<i>Change in net position, Exhibit C-2</i>			<u>\$ (157,738)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement A-2

Carlsbad Irrigation District

Oil and Gas Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Position

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended October 31, 2013

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable)
<i>Operating revenues:</i>				
Charges for services	\$ -	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expenses:</i>				
General and administrative	-	-	-	-
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Supplies and purchased power	-	-	-	-
Repairs and maintenance	-	-	-	-
Utilities	-	-	-	-
<i>Total operating expenses</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating income (loss)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Non-operating revenues (expenses):</i>				
Royalties and rental income	60,000	60,000	24,386	(35,614)
Interest income	350	350	3,498	3,148
Gain/loss on disposal of capital assets	-	-	-	-
Miscellaneous	-	-	7,656	7,656
<i>Total non-operating revenues (expenses)</i>	<u>60,350</u>	<u>60,350</u>	<u>35,540</u>	<u>(24,810)</u>
<i>Income (loss) before transfers</i>	<u>60,350</u>	<u>60,350</u>	<u>35,540</u>	<u>(24,810)</u>
Transfers in	-	-	-	-
Transfers out	-	-	(87,884)	(87,884)
<i>Change in net position</i>	<u>60,350</u>	<u>60,350</u>	<u>(52,344)</u>	<u>(112,694)</u>
Designated cash	<u>(60,350)</u>	<u>(60,350)</u>	<u>-</u>	<u>60,350</u>
<i>Total net position, beginning of year</i>	<u>-</u>	<u>-</u>	<u>609,832</u>	<u>609,832</u>
<i>Restatement (Note 17)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total net position, beginning of year as restated</i>	<u>-</u>	<u>-</u>	<u>609,832</u>	<u>609,832</u>
<i>Total net position, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 557,488</u>	<u>\$ 557,488</u>
<i>Change in net position, above</i>			\$ (52,344)	
Depreciation			<u>-</u>	
<i>Change in net position, Exhibit C-2</i>			<u>\$ (52,344)</u>	

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Schedule of Deposit and Investment Accounts
 October 31, 2013

Schedule I

Bank Account Type/Name	Deposits
	Carlsbad National Bank
O & M Checking - Noninterest Bearing	\$ 24,652
Money Management Checking - Interest Bearing	71,238
Oil & Gas Savings - Interest Bearing	157,488
E-Account Checking - Noninterest Bearing (CID Traveling Debit Card)	817
BOR Savings - Interest Bearing	201,085
CD - BOR	200,000
CD - BOR	800,000
CD - BOR	400,000
	1,855,280
Total on deposit	1,855,280
Reconciling items	169
Reconciled balance	\$ 1,855,449
Petty cash	600
Total deposits and investments	\$ 1,856,049
Total unrestricted cash and cash equivalents per Exhibit A-1	\$ 456,049
Total investments per exhibit A-1	1,400,000
Total deposits and investments	\$ 1,856,049

See accompanying independent auditors' report

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Schedule of Collateral Pledged By Depository
 For Public Funds
 October 31, 2013

Schedule II

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at October 31, 2013	Location of Safekeeper
Carlsbad National Bank					
	FNMA POOL AH4468	2/1/2026	3138A56E7	\$ 561,345	Federal Home Loan Bank Dallas, TX
	FNMA POOL 995642	6/1/2035	31416CBK1		Federal Home Loan Bank Dallas, TX
	FN 99AR	12/10/2040	31385X157	1,111,397	Federal Home Loan Bank Dallas, TX
	MLNA 2012-1 A10	1/15/2022	313G3KS8	1,330,060	Federal Home Loan Bank Dallas, TX
				710,683	Federal Home Loan Bank Dallas, TX
	Total Carlsbad National Bank			<u>3,713,485</u>	
	Total Pledged Collateral			<u>\$ 3,713,485</u>	

See accompanying independent auditors' report

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COMPLIANCE SECTION



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***

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Carlsbad Irrigation District (the "District"), as of and for the year ended October 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the proprietary fund budgetary statements of the District presented as supplementary, and have issued our report thereon dated March 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items FS 2013-001 and FS 2013-002.

District's Responses to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
March 27, 2014

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FEDERAL FINANCIAL ASSISTANCE



Accounting & Consulting Group, LLP
Certified Public Accountants

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Carlsbad Irrigation District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended October 31, 2013. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended October 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, 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 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance 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 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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
March 27, 2014

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STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Schedule of Expenditures of Federal Awards
 For the Year Ended October 31, 2013

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>			
U.S. Department of the Interior			
Bureau of Reclamation			
Reclamation and Water Reuse Program *	15.504	9-07-40-R0910	\$ 598,261
WaterSMART	15.507	WaterSMART1	<u>135,811</u>
Total U.S. Department of the Interior			<u>734,072</u>
Total Expenditures of Federal Awards			<u><u>\$ 734,072</u></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.

3. Non-cash Federal Assistance

The District did not receive any non-cash federal assistance during the year.

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 734,072
Total expenditures funded by other sources	<u>1,910,178</u>
Total expenditures	<u><u>\$ 2,644,250</u></u>

See accompanying independent auditors' report
 See accompanying notes to schedule of expenditures of federal awards

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STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Schedule of Findings and Questioned Costs
 October 31, 2013

Section I – Summary of Audit Results

Financial Statements:

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

Federal Awards:

- | | | | | | | | |
|---|-------------------------------------|------------------------|--------|-------------------------------------|--------|--|--|
| 1. Internal control over major programs: | | | | | | | |
| a. Material weaknesses identified? | No | | | | | | |
| b. Significant deficiencies identified not considered to be material weaknesses? | No | | | | | | |
| 2. Type of auditors’ report issued on compliance for major programs | Unmodified | | | | | | |
| 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="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 50%;"><u>CFDA</u></td> <td style="text-align: center; width: 50%;"><u>Federal Program</u></td> </tr> <tr> <td style="text-align: center;">Number</td> <td style="text-align: center;">Reclamation and Water Reuse Program</td> </tr> <tr> <td style="text-align: center;">15.504</td> <td></td> </tr> </table> | <u>CFDA</u> | <u>Federal Program</u> | Number | Reclamation and Water Reuse Program | 15.504 | | |
| <u>CFDA</u> | <u>Federal Program</u> | | | | | | |
| Number | Reclamation and Water Reuse Program | | | | | | |
| 15.504 | | | | | | | |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 | | | | | | |
| 6. Auditee qualified as low-risk auditee? | No | | | | | | |

(*) Finding FA 2013-001 does not rise to the level of severity necessary to be reported under Section 510(a) of Circular A-133, however the finding is required to be reported per Section 12-6-5 NMSA 1978.

Section II – Financial Statement Findings and Questioned Costs

A. Financial Statement Findings

FS 2013-001 Stale Dated Transactions Not Cancelled – Other Matters

Condition: The District is in violation of state statutes regarding stale-dated checks. The District maintained two (2) checks totaling \$158.10 on its bank reconciliation that were dated over one year old at October 31, 2013.

Criteria: Chapter 7 Article 8A, NMSA 1978, and related regulations require that the District provide information about the payees and the related funds to Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

Effect: Carrying numerous bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds. Also, the District could be subject to penalty for failure to follow and comply with state regulation.

Cause: The District did not implement an internal control policy to account for stale dated outstanding checks and deposits and did not clear these items on a timely basis.

Auditors' Recommendations: We recommend that the District implement a procedure to review the outstanding check and deposit listings for all bank accounts and track stale-dated items. If items on the outstanding check and deposit listings are greater than one year old we recommend these items be voided. Also, we recommend that the District provide the information to the Property Division of the New Mexico Taxation and Revenue Department as required.

Agency's Response: The District was aware of the stale dated checks still outstanding at year end. The two checks outstanding were written to businesses that are no longer in business. Due to this we were unsure how to handle the checks. In the future we will begin reporting these stale dated items to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department.

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

A. Financial Statement Findings

FS 2013-002 IPA Recommendation Form and Contract – Other Matters

Condition: The District submitted the IPA recommendation form and the signed contract to the Office of the State Auditor (OSA) subsequent to the regulatory due date of 30 days prior to year end..

Criteria: Pursuant to 2.2.2.8(G)(6)(c)(ii) NMAC, the District is required to submit the IPA recommendation and signed audit contract to OSA no later than 30 days prior to fiscal year end.

Effect: The District is not in compliance with the New Mexico Administration Code.

Cause: Due to the year end falling on a date other than June 30, the District was not aware the IPA recommendation form was due 30 days prior to their fiscal year end.

Auditors' Recommendation: The District should ensure they prepare the IPA recommendation form and contract with sufficient time to have the approval of all required parties and submit the information to OSA by the required deadline.

Agency's Response: The IPA recommendation form was not submitted timely due to oversight. The District will strive to ensure that the form is submitted timely for fiscal year 2014.

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

B. Federal Awards Findings

FA 2013-001 Bonus Paid to Employees with Federal Funds – Other Matters

Federal program information:

Funding agency: U.S. Department of the Interior
Title: Reclamation and Water Reuse Program
CFDA number: 15.504
Pass through: Bureau of Reclamation

Condition: During testwork, it was noted that the District wrote and cashed a check from Water Reclamation and Reuse Program funding and issued six (6) employees a cash bonus of \$100.

Criteria: According to OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, federal funding should be used for reasonable costs. According to the definition of reasonable costs, as defined by OMB Circular A-87, cost needs to be necessary and reasonable for proper efficient performance and administration of federal awards, allocable to federal awards, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Expenditures should be compensation of employees for time devoted and identified specifically to the performance of those awards. The costs to pay this employee on administrative paid leave did not fall into the category of reasonable cost.

Effect: The District utilized federal funding for an unreasonable cost.

Questioned Costs: \$600.00

Cause: When the bonus were issued, the District did not properly review Circular A-87 (C)(2) Basic Guidelines Reasonable Costs, (E)(2)(a) Direct Costs Application, and Attachment B (8) Compensation for Personal Services, to ensure this expenditure was allowable.

Auditors' Recommendations: We recommend that the District monitors payments to employee's that are paid with federal funding to ensure that the payment is still considered a reasonable cost as defined by OMB Circular A-87.

Agency's Response: We were unaware that the issuance of a cash bonus to our employees with federal funding was considered an unallowable cost. We will strive to familiarize ourselves with the OMB Circular A-87 Cost Principles to ensure that all future expenses incurred with federal funding are allowable.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Schedule of Findings and Questioned Costs
October 31, 2013

Section III – Schedule of Prior Year Audit Findings

FS 2007-2	Capital Assets	Resolved
FS 2012-1	Deficiencies in Internal Control Structure Design	Resolved
FS 2012-2	Expenditures in Excess of Budget	Resolved
FA 2007-11	Failure to Submit the Data Collection Form in a Timely Manner – Compliance Requirement	Resolved

STATE OF NEW MEXICO
Carlsbad Irrigation District
Other Disclosures
October 31, 2013

Exit Conference

An exit conference was held on March 28, 2014. In attendance were the following:

Representing Carlsbad Irrigation District:

Bill Aherns	Interim District Manager
Shirley Talbot	Bookkeeper
Charles Jurva	Board President

Representing Accounting & Consulting Group, LLP:

Cindy Bryan	Partner
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Auditor Prepared Financial Statements

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of Carlsbad Irrigation District from the original books and records provided to them by the management of the District. The responsibility for the financial statements remains with the District.