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Consulting Group, LLP**
Certified Public Accountants

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State of New Mexico Carlsbad Irrigation District Annual Financial Report October 31, 2014

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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, 2014

<u>Name</u>	<u>Board of Directors</u>	<u>Title</u>
Charles H. Jurva		President
Gary Walterscheid		Vice President
Louise Tracy		Board Member/ Director
Johnny Reid		Board Member/Director
Oscar Vasquez		Board Member/ Director

District Officials

Dale Ballard	Manager
Ron Bailey	Water Master

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
To the President and Board of Directors
Carlsbad Irrigation District
Carlsbad, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budgetary comparison of the general fund of the Carlsbad Irrigation District ("the District"), as of and for the year ended October 31, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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, each major fund, and the aggregate remaining fund information of Carlsbad Irrigation District, as of October 31, 2014, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17, the presentations of the financial statements of the District have significantly changed. This change is a result of the District reclassifying the Water Distribution Operations fund as a governmental fund instead of an enterprise fund as previously reported in prior fiscal years. The reconciliation of beginning equity on the various bases of accounting has been presented in Note 17. Our opinion is not modified with respect to this matter.

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 comparison. The, 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 introductory section 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 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 25, 2015 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 25, 2015

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

Exhibit A-1

Carlsbad Irrigation District

Statement of Net Position

October 31, 2014

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 265,146
Investments	400,000
Tax assessments receivable	25,581
Prepaid expenses	<u>5,718</u>
Total current assets	<u>696,445</u>
Noncurrent assets	
Restricted cash	311,361
Restricted investments	1,000,000
Capital assets	13,294,978
Less: accumulated depreciation	<u>(7,460,523)</u>
Total noncurrent assets	<u>7,145,816</u>
Total assets	<u><u>\$ 7,842,261</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 96,008
Accrued payroll expenses	20,138
Accrued compensated absences	<u>16,757</u>
Total current liabilities	<u>132,903</u>
Noncurrent liabilities	
Accrued compensated absences	<u>5,153</u>
Total noncurrent liabilities	<u>5,153</u>
Total liabilities	<u>138,056</u>
Net Position	
Net investment in capital assets	5,834,455
Restricted for:	
Special revenue	1,303,835
Unrestricted	<u>565,915</u>
Total net position	<u>7,704,205</u>
Total liabilities and net position	<u><u>\$ 7,842,261</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Statement of Activities
 For the Year Ended October 31, 2014

Exhibit A-2

	<u>Governmental Activities</u>
Expenses:	
Public works	\$ <u>2,532,191</u>
Total expenses	<u>2,532,191</u>
Program Revenues:	
Licenses and fees	102,937
Operating grants and contributions	510,220
Capital grants and contributions	<u>24,793</u>
Total program revenues	<u>637,950</u>
<i>Net program (expense)</i>	<u>(1,894,241)</u>
General Revenues:	
Tax assessments	1,563,660
Oil royalties and lease income	246,005
Investment income	22,238
Miscellaneous income	6,625
Gain on sale of capital assets	<u>19,297</u>
Total general revenues	<u>1,857,825</u>
Change in net position	<u>(36,416)</u>
Net position, beginning, as previously reported	1,188,695
Conversion of business-type activities to governmental activities (see note 17)	4,301,926
Restatement (see note 17)	<u>2,250,000</u>
Net position, beginning as restated	<u>7,740,621</u>
Net position, ending	<u><u>\$ 7,704,205</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Carlsbad Irrigation District

Balance Sheet

Governmental Funds

October 31, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	
	<u>Water Distribution Operations</u>	<u>Water Salvage</u>	<u>Ft. Sumner Dam</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 265,146	\$ 4,929	\$ 56,590
Investments	400,000	-	800,000
Tax assessments receivable	25,581	-	-
Prepaid expenses	5,718	-	-
<i>Total assets</i>	<u>\$ 696,445</u>	<u>\$ 4,929</u>	<u>\$ 856,590</u>
<i>Liabilities, deferred inflows and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 88,482	\$ -	\$ -
Accrued payroll expenses	20,138	-	-
<i>Total liabilities</i>	<u>108,620</u>	<u>-</u>	<u>-</u>
<i>Deferred inflows</i>			
Unavailable revenue	21,194	-	-
<i>Total deferred inflows</i>	<u>21,194</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>			
Nonspendable for prepaid expenses	5,718	-	-
Spendable			
Restricted for:			
Water salvage program maintenance and operation	-	4,929	-
Rehabilitation of radial gates	-	-	856,590
Dam maintenance and operations	-	-	-
Wells maintenance and operation	-	-	-
Unassigned	560,913	-	-
<i>Total fund balances</i>	<u>566,631</u>	<u>4,929</u>	<u>856,590</u>
<i>Total liabilities, deferred inflows and fund balances</i>	<u>\$ 696,445</u>	<u>\$ 4,929</u>	<u>\$ 856,590</u>

The accompanying notes are an integral part of these financial statements

Special Revenue Fund			
Brantley Dam	Seven Rivers Wells	WaterSMART	Total
\$ 212,566	\$ 37,276	\$ -	\$ 576,507
200,000	-	-	1,400,000
-	-	-	25,581
-	-	-	5,718
<u>\$ 412,566</u>	<u>\$ 37,276</u>	<u>\$ -</u>	<u>\$ 2,007,806</u>
\$ 7,526	\$ -	\$ -	\$ 96,008
-	-	-	20,138
<u>7,526</u>	<u>-</u>	<u>-</u>	<u>116,146</u>
-	-	-	21,194
-	-	-	21,194
-	-	-	5,718
-	-	-	4,929
-	-	-	856,590
405,040	-	-	405,040
-	37,276	-	37,276
-	-	-	560,913
<u>405,040</u>	<u>37,276</u>	<u>-</u>	<u>1,870,466</u>
<u>\$ 412,566</u>	<u>\$ 37,276</u>	<u>\$ -</u>	<u>\$ 2,007,806</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, 2014

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	\$	1,870,466
Tax assessment receivables not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities		21,194
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>(21,910)</u>
Net position of governmental activities	\$	<u><u>7,704,205</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended October 31, 2014

	General Fund	Special Revenue Fund	
	Water Distribution Operations	Water Salvage	Ft. Sumner Dam
<i>Revenues:</i>			
Tax assessments	\$ 1,542,466	\$ -	\$ -
Oil royalties and lease income	246,005	-	-
Licenses and fees	102,937	-	-
Intergovernmental			
Federal operating grants	-	-	-
Federal capital grants	-	-	-
Investment income	12,639	-	-
Miscellaneous	4,687	-	1,938
<i>Total revenues</i>	<u>1,908,734</u>	<u>-</u>	<u>1,938</u>
<i>Expenditures:</i>			
<i>Current:</i>			
Public works	1,986,802	-	891
Capital outlay	7,100	-	-
<i>Total expenditures</i>	<u>1,993,902</u>	<u>-</u>	<u>891</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(85,168)</u>	<u>-</u>	<u>1,047</u>
<i>Other financing sources (uses)</i>			
Proceeds from sale of capital assets	20,006	-	-
Transfers in	80,953	847	1,958
Transfers (out)	(43,908)	-	(4,458)
<i>Total other financing sources (uses)</i>	<u>57,051</u>	<u>847</u>	<u>(2,500)</u>
<i>Net change in fund balance</i>	(28,117)	847	(1,453)
<i>Fund balance - beginning of year, as previously stated</i>	-	4,082	858,043
<i>Fund reclassification from</i>			
<i>enterprise to governmental fund (see note 17)</i>	3,744,438	-	-
<i>Conversion adjustment to</i>			
<i>beginning fund balance (see note 17)</i>	(3,707,178)	-	-
<i>Elimination of oil and gas fund (see note 17)</i>	557,488	-	-
<i>Fund balance -beginning of year as restated</i>	<u>594,748</u>	<u>4,082</u>	<u>858,043</u>
<i>Fund balance - end of year</i>	<u>\$ 566,631</u>	<u>\$ 4,929</u>	<u>\$ 856,590</u>

The accompanying notes are an integral part of these financial statements

Special Revenue Fund			
Brantley Dam	Seven Rivers Wells	WaterSMART	Total
\$ -	\$ -	\$ -	\$ 1,542,466
-	-	-	246,005
-	-	-	102,937
489,760	20,460	-	510,220
-	-	24,793	24,793
9,599	-	-	22,238
-	-	-	6,625
<u>499,359</u>	<u>20,460</u>	<u>24,793</u>	<u>2,455,284</u>
312,102	16,665	66,090	2,382,550
-	-	-	7,100
<u>312,102</u>	<u>16,665</u>	<u>66,090</u>	<u>2,389,650</u>
<u>187,257</u>	<u>3,795</u>	<u>(41,297)</u>	<u>65,634</u>
-	-	-	20,006
-	-	42,915	126,673
<u>(73,325)</u>	<u>(3,364)</u>	<u>(1,618)</u>	<u>(126,673)</u>
<u>(73,325)</u>	<u>(3,364)</u>	<u>41,297</u>	<u>20,006</u>
113,932	431	-	85,640
291,108	36,845	-	1,190,078
-	-	-	3,744,438
-	-	-	(3,707,178)
-	-	-	557,488
<u>291,108</u>	<u>36,845</u>	<u>-</u>	<u>1,784,826</u>
<u>\$ 405,040</u>	<u>\$ 37,276</u>	<u>\$ -</u>	<u>\$ 1,870,466</u>

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, 2014

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 \$ 85,640

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

Capital expenditures recorded in capital outlay 7,100
Depreciation expense (148,720)

In the statement of activities, only the *gain* on sale of capital assets is reported,
whereas, in the governmental funds, the proceeds from the sale increase financial
resources. Thus, the change in net position differs from the change in fund balance
by the net book value of capital assets sold (709)

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

Increase in unavailable revenue 21,194

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

Increase in accrued compensated absences (921)

Change in net position of governmental activities \$ (36,416)

STATE OF NEW MEXICO

Exhibit C-1

Carlsbad Irrigation District
Water Distribution Operations General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget (Modified Accrual Basis) and Actual
For the Year Ended October 31, 2014

	Budget Amounts		Actual	Variances
	Original	Final	(Modified Accrual Basis)	Favorable (Unfavorable)
<i>Revenues</i>				
Tax assessments	\$ 1,548,962	\$ 1,555,573	\$ 1,542,466	\$ (13,107)
Oil royalties and lease income	48,900	246,103	246,005	(98)
Licenses and fees	51,000	97,649	102,937	5,288
Proceeds from sale of capital assets	10,000	15,255	20,006	4,751
Investment income	7,800	10,625	12,639	2,014
Miscellaneous	72,400	36,315	4,687	(31,628)
<i>Total revenues</i>	1,739,062	1,961,520	1,928,740	(13,107)
<i>Expenditures</i>				
Current:				
Public works	1,782,550	1,989,076	1,986,802	2,274
Capital outlay	8,000	8,000	7,100	900
Debt service	-	-	-	-
Principle	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	1,790,550	1,997,076	1,993,902	3,174
<i>Excess (deficiency) of revenues over expenditures</i>	(51,488)	(35,556)	(65,162)	(9,933)
<i>Other financing sources (uses)</i>				
Designated cash	51,488	35,556	-	35,556
Transfers in	-	-	80,953	80,953
Transfers out	-	-	(43,908)	(43,908)
<i>Total other financing sources</i>	51,488	35,556	37,045	37,045
<i>Net change in fund balances</i>	-	-	(28,117)	(28,117)
<i>Fund balance beginning (restated)</i>	-	-	594,748	594,748
<i>Fund balance ending</i>	\$ -	\$ -	\$ 566,631	\$ 566,631

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2014

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, 2014, GASB Statement No. 65 (“GASB 65”), Items Previously Reported as Assets and Liabilities, went into affect. GASB 65 established accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The effect of GASB 65 is reflected in the Statement of Activities and governmental fund balance sheet as is reports unavailable revenues from tax assessments as deferred inflows at October 31, 2014.

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, 2014

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 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. The District's *Governmental activities*, are supported by tax assessments and intergovernmental revenues.

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

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognized all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts – net 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 grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Tax assessments and other items not properly included among program revenues are reported instead as *general revenues*.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Separate financial statements are provided for governmental funds. Major individual governmental 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*. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange transactions should be recognized when the related purpose restriction, eligibility requirement or time requirement is met in accordance with GASB 33 and GASB 65. Tax assessments are recognized as revenues in the year for which they are levied. Federal operating and capital grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. The District has no expenditure-driven grants.

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

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

The District reports the following major governmental funds:

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

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

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)

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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. The only investments of the District are Certificates of Deposit which have original maturity dates that exceed three months from the date of acquisition and total \$1,400,000 at October 31, 2014.

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

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.

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

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2014

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 costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets: Restricted assets consist of those funds restricted by the Bureau of Reclamation for federal projects associated with the repair and replacement of Radial Gates at the Ft Sumner Dam and for the operation and maintenance of the Brantley Dam. Restricted cash and investments total \$311,361 and \$1,000,000 respectively at October 31, 2014.

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

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

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

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

Mineral rights are amortized based on 15% of oil royalties and lease payments received during the fiscal year. There was no amortization recorded for fiscal year ending October 31, 2014 as the valuation method used to initially record the mineral rights was performed in October of 2014 incorporated any accumulated amortization at October 31, 2014 (See note 17 for more information).

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through October 31, 2014, along with any applicable employer related expenses including FICA, Medicare, and retirement expenses.

Unearned Revenues and Unavailable Revenues:

- *Unearned revenue-* Under both the accrual and the modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability called unearned revenue.
- *Unavailable revenue-* Under the modified accrual basis of accounting, revenue must also be susceptible to accrual (it must be both measureable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflow. The District has recorded \$21,194 related to tax assessments considered unavailable.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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

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

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. For bonds issued after the District implemented GASB 34, bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. The District had no bonds outstanding as of October 31, 2014.

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, 2014, the restricted fund balance on the governmental funds balance sheet is made up of \$1,303,835 for the restricted purposes as defined by each fund as described on page 27.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2014

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. Amortization of mineral rights are based on depletion of oil and gas reserves and is estimated to be 15% of oil and gas royalties received in a given fiscal year.

Reclassifications: Certain amounts included in the financial statements have been reclassified to conform to the current year presentation. The Water Distribution Operations fund has been reclassified as a governmental fund for the year-ended October 31, 2014 as its principal revenue source is tax assessments instead of charges for goods and services.

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, 2014

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 Directors, 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, 2014.

General Fund-Budget

The District prepares an annual operating budget for its water operations fund (general fund), and the Board of Directors approves the budget. The budget is not submitted to any other agency for approval. The budget is adopted for the general fund on the modified accrual basis of accounting which is the same basis of accounting used to record revenues and expenditures for the governmental fund financial statements.

Formal budgetary integration is employed as a management control device during the year for the general 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 Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Modified Accrual) and Actual presents comparisons of the legally adopted budget with actual data on the modified accrual basis.

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, 2014.

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.

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2014

NOTE 3. Deposits and Investments (continued)

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, 2014, \$1,724,986 of the District's bank balances of \$1,974,986 was exposed to custodial credit risk. \$1,724,986 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.

	Carlsbad National Bank
Amount of deposits	\$ 1,974,986
FDIC Coverage	(250,000)
Total uninsured public funds	1,724,986
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	1,724,986
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	\$ 862,493
Pledged collateral	3,026,134
Over (under) collateralized	\$ 2,163,641

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.

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2014

NOTE 3. Deposits and Investments (continued)

Reconciliation to the Statement of Net Position

Unrestricted cash and cash equivalents per Exhibit A-1	\$ 265,146
Restricted cash per Exhibit A-1	311,361
Investments per Exhibit A-1	400,000
Restricted investments per Exhibit A-1	1,000,000
Plus: Outstanding checks	516
Less: deposits in transit	(1,437)
Less: petty cash	<u>(600)</u>
Bank balance of deposits	<u><u>\$ 1,974,986</u></u>

NOTE 4. Receivables

The District's receivables as of October 31, 2014 are as follows:

	<u>Governmental Funds</u>
Tax assessments receivable	<u><u>\$ 25,581</u></u>

The District has recorded \$21,194 related to tax assessments considered unavailable as a deferred inflow as of October 31, 2014.

NOTE 5. Interfund Transfers

Transfers have primarily been recorded to supplement funding sources in the normal course of operations. Transfers were recorded during the year ended October 31, 2014 as follows:

<u>Transfers Out</u>	<u>Transfers in</u>	<u>Amount</u>
Water Distribution Operation	Ft. Sumner Dam Special Revenue Fund	\$ 993
Water Distribution Operation	WaterSmart Special Revenue Fund	42,915
Ft. Sumner Dam Special Revenue Fund	Water Distribution Operation	4,458
Brantley Dam Special Revenue Fund	Water Distribution Operation	71,513
Brantley Dam Special Revenue Fund	Ft. Sumner Dam Special Revenue Fund	965
Brantley Dam Special Revenue Fund	Water Salvage Special Revenue Fund	847
Seven Rivers Wells Special Revenue Fund	Water Distribution Operation	3,364
WaterSmart Special Revenue Fund	Water Distribution Operation	<u>1,618</u>
	Total	<u><u>\$ 126,673</u></u>

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2014

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended October 31, 2014. Land is not subject to depreciation.

	Balance, October 31, 2013	Restatement	Additions	Deletions	Balance, October 31, 2014
Capital assets not being depreciated:					
Land	\$ 2,643,283	\$ -	\$ -	\$ -	\$ 2,643,283
Capital assets being depreciated:					
Mineral rights	-	2,250,000	-	-	2,250,000
Buildings and improvements	394,819	-	-	-	394,819
Machinery and equipment	422,938	-	7,100	12,605	417,433
Water distribution system	7,589,443	-	-	-	7,589,443
Total capital assets being depreciated	8,407,200	2,250,000	7,100	12,605	10,651,695
Total capital assets	11,050,483	2,250,000	7,100	12,605	13,294,978
Less accumulated depreciation:					
Buildings and improvements	70,918	-	15,819	-	86,737
Machinery and equipment	349,961	-	31,810	11,896	369,875
Water distribution system	6,902,820	-	101,091	-	7,003,911
Total accumulated depreciation	7,323,699	-	148,720	11,896	7,460,523
Total capital assets, net of depreciation	\$ 3,726,784	\$ 2,250,000	\$ (141,620)	\$ 709	\$ 5,834,455

Depreciation expense for the year ended October 31, 2014 totaled \$148,720 and is charged to the District's public works function on the statement of activities. See Note 17 for detail on the adjustments to net position related to recording of mineral rights as of October 31, 2014.

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2014

NOTE 7. Long-term Debt

During the year ended October 31, 2014, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	Balance, October 31, 2013	Additions	Retirements	Balance, October 31, 2014	Due Within One Year
Compensated absences	\$ 20,989	\$ 35,180	\$ 34,259	\$ 21,910	\$ 16,757

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

NOTE 8. Deficit Fund Balance and Budget Noncompliance

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

- A. Deficit fund balance of individual funds. There were no deficit fund balances as of October 31, 2014.
- 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, 2014.
- 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, 2014.

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: 7.4% 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, 2014, 2013 and 2012 were \$62,422, \$69,340, and \$68,256, 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, 2014

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, 2014.

NOTE 11. Contingent Liabilities

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

NOTE 12. Federal and State Grants

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

NOTE 13. Concentrations

Approximately 62% of the District's revenues are derived from tax assessments to landowners. Reduction or interruption of these revenue sources is not expected.

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

NOTE 14. Subsequent Pronouncements

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 ending October 31, 2015, and it is expected to have a significant impact on the District's financial statements. The District's fiscal year 2015 financial statement will reflect a new material liability as result of pension participation with the New Mexico Public Employees Retirement Association.

In January 2013, GASB Statement No. 69 Government Combinations and Disposals of Government Operations, Effective Date: The requirements 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 reporting standard will affect the District.

In November 2013, GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The District will implement this standard during the fiscal year ending October 31, 2015.

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Notes to Financial Statements
 October 31, 2014

NOTE 15. Restricted Net Position

The government-wide statement of net position reports \$1,303,835 of restricted net position, all of which is restricted by enabling legislation referred to in the special revenue fund descriptions on page 27.

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, 2014, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Carlsbad Irrigation District.

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

NOTE 17. Fund Reclassification and Restatement

At the beginning of fiscal year ending October 31, 2014 management determined the Water Distribution Operations fund (general fund) was more accurately reflected as a governmental fund instead of an enterprise fund as previously reported in prior fiscal years. The determination was made based on the evaluation criteria specified by the governmental accounting standards board codification 1300 in the context of the general fund's principle revenue source which is tax assessments. In addition, the oil and gas enterprise fund was eliminated and the account balances and related transactions are now reflected within the Water Distribution Operations fund. The change in reporting classification and elimination of the oil and gas fund necessitated the following adjustments to beginning governmental fund balances.

	Water Distribution Operation and Oil and Gas Funds October 31, 2013			
	Fund Reclassification from enterprise to governmental fund	Conversion adjustment from enterprise to governmental fund	Elimination of oil and gas fund	Conversion of business-type activities to governmental activities
Compensated absences	\$ -	\$ 19,606	\$ -	\$ -
Net investment in capital assets	3,726,784	(3,726,784)		3,726,784
Unrestricted net position	<u>17,654</u>	<u>-</u>	<u>557,488</u>	<u>575,142</u>
Total	<u>\$ 3,744,438</u>	<u>\$ (3,707,178)</u>	<u>\$ 557,488</u>	<u>\$ 4,301,926</u>

In addition, the District recorded mineral rights acquired in previous fiscal years as a capital asset in the amount of \$2,250,000 based on a proposed offer to purchase the mineral rights that occurred on October 17, 2014. The mineral rights were previously unrecorded in prior fiscal years and were recorded for the purpose of conforming with the *Governmental Accounting Standards Board Statement 51 Accounting and Financial Reporting for Intangible Assets* which was required to be adopted for fiscal years beginning after June 15, 2009. Subsequent measurement of the mineral rights will incorporate amortization based on 15% of oil and gas royalties received annually.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Notes to Financial Statements
October 31, 2014

NOTE 18. Subsequent Events

The date to which events occurring after October 31, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is March 25, 2015, which is the date on which the financial statements were issued.

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SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Schedule of Deposit and Investment Accounts
 October 31, 2014

Schedule I

Bank Account Type/Name	Deposits	
	Carlsbad National Bank	
O & M Checking - Noninterest Bearing	\$	91,173
Money Management Checking - Interest Bearing		2,426
Oil & Gas Savings - Interest Bearing		169,838
E-Account Checking - Noninterest Bearing (CID Traveling Debit Card)		188
BOR Savings - Interest Bearing		311,361
CD - BOR		200,000
CD - BOR		800,000
CD - Oil and Gas		400,000
		<hr/>
Total on deposit		1,974,986
Reconciling items		921
		<hr/>
Reconciled balance	\$	1,975,907
		<hr/> <hr/>
Petty cash		600
Total deposits and investments	\$	1,976,507
		<hr/> <hr/>
Total unrestricted cash and cash equivalents per exhibit A-1	\$	265,146
Total restricted cash per exhibit A-1		311,361
Total unrestricted investments per exhibit A-1		400,000
Total restricted investments per exhibit A-1		1,000,000
		<hr/>
Total deposits and investments	\$	1,976,507
		<hr/> <hr/>

See accompanying independent auditors' report

STATE OF NEW MEXICO
 Carlsbad Irrigation District
 Schedule of Collateral Pledged By Depository
 For Public Funds
 October 31, 2014

Schedule II

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at October 31, 2014	Location of Safekeeper
Carlsbad National Bank					
	FNMA POOL AH4468	2/1/2026	3138A56E7	\$ 452,617	Federal Home Loan Bank Dallas, TX
	FNMA POOL 995642	6/1/2035	31416CBK1	859,240	Federal Home Loan Bank Dallas, TX
	FN 99AR	12/10/2053	31385XI57	1,014,388	Federal Home Loan Bank Dallas, TX
	FNMA MA0628	1/1/2021	31417YVW4	699,889	Federal Home Loan Bank Dallas, TX
	Total Carlsbad National Bank			<u>3,026,134</u>	
	Total Pledged Collateral			<u>\$ 3,026,134</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

Timothy Keller
New Mexico State Auditor
To the President and Board of Directors
Carlsbad Irrigation District
Carlsbad, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund of the Carlsbad Irrigation District (the "District"), as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 25, 2015.

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 responses as items FS 2014-001, FS 2014-002 and FS 2014-003.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
March 25, 2015

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STATE OF NEW MEXICO
Carlsbad Irrigation District
Schedule of Findings and Responses
October 31, 2014

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 |

Section II – Financial Statement Findings and Questioned Costs

A. Financial Statement Findings

FS 2014-001 Phantom Revenues and Expenditures Recorded (other matter)

Condition: During the course of our audit we noted the District records in its general ledger revenues and expenses based on monthly certification amounts reported to the Bureau of Reclamation (BOR). The monthly certifications are a tool used by the District to justify transfers of cash between the District’s designated federal bank account and the District’s operations bank account. The bank transfers are based on calculated overhead, personal expense reimbursements, a truck lease, and the District’s share of federal project costs related to the operations of Sumner and Brantley Dams. The District reimburses the operations bank account for these calculated costs from its designated federal bank account through monthly bank transfers. The entries in the general ledger result in a simultaneous increase in both revenues and expenditures accounts, but do not represent additional revenues and expenses from BOR as defined by the Governmental Accounting Standards Board.

Total revenues and expenses recorded based on monthly certification amounts totaled \$103,047 for fiscal year 2014.

Criteria: GASB 1600 Basis of Accounting statements of principle states:

“Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions should be recognized in accordance with Section N50, “Nonexchange Transactions.”

“Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred.”

Effect: The recording of revenues and expenses in the general ledger based on monthly certifications overstates both revenues and expenses for the District. This also requires elimination entries to be proposed during the course of the FY14 audit for financial reporting purposes. The recording of revenues and expenses in the general ledger based on certifications requires significant amount of time to calculate, record, audit, and eliminate.

Cause: A consulting firm in prior fiscal years recommended the District record revenues and expenses in the general ledger based on monthly certifications to BOR.

Auditors’ Recommendations: We recommend the District continue to certify its monthly revenues and expense to BOR; however, we recommend the District discontinue recording revenues and expenses in the general ledger based on these certifications and record revenue and expenses based on accounting principles prescribed by the Governmental Accounting Standards Board.

Agency’s Response: We concur with the finding and are committed to following accounting principles issued by the GASB. We will discuss the matter with our bookkeeper to ensure the finding is not repeated in fiscal year 2015.

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

A. Financial Statement Findings

FS 2014-002 CID Property Management L.L.C –Unbilled Amounts, Noncompliance with Contract (other matter)

Condition: During our testing of accounts payable balances at year-end we noted the District had not recorded an amount owed to CID property management LLC (Contractor) as of October 31, 2014 in the amount of \$12,470. The amount represents a 7.5% management fee related to an oil lease extension bonus in the amount of \$166,262.25 received by the District. The invoice was dated January 5, 2015; however, the oil lease extension bonus was received by the District on October 15, 2014. It was further noted that the Contractor routinely does not bill the District for management fees associated with smaller oil and gas royalty payments received by the District during the course of the fiscal year as the Contractor's previous billing was on December 13, 2011.

As part of FY14 audit procedures we attempted to test certain provisions associated with the contractor's professional services contract (contract) dated January 14, 2014. We requested to see:

- 1) Monthly and annual accounting of oil and gas production, royalty payments, lease bonus considerations, delay rentals, shut-in royalties and surface damage payments.
- 2) Geological evaluation of CID properties relative to oil and gas development proposals.

The District could not provide us with the requested information.

Criteria: Under the terms of the contract dated January 14, 2014 the 7.5% management fee is intended to compensate the Contractor for a range of property management services related to the District's properties owned by the District which are subject to Oil and Gas leases including 1) monthly and annual accounting of oil and gas production, royalty payments, lease bonus considerations, delay rentals, shut-in royalties and surface damage payments, 2) Negotiation and execution of all oil and gas leases and /or contracts as the agent for the District and the District Properties and 3) management of oil and gas exploration and production activities.

Also good accounting practices require the District to ensure it receives all property management services specified in professional services contract and to ensure the full cost of services is recorded accurately and timely in the general ledger.

Effect: The impact on the audit was an audit adjustment of \$12,470 was required to correct accounts payable balances at October 31, 2014. We also estimated the contractor had additional unbilled services totaling \$6,961 based on Oil and Gas royalties received in the current and prior fiscal years. It is possible the District could receive an unexpected bill for these amounts in future fiscal years. Under-billing allows the Contractor to circumvent the State Procurement Code because it keeps the cost of services below the required Bid/RFP thresholds. Also the District can not properly monitor the completeness and accuracy of oil and gas royalty payments received and associated costs during the fiscal year due to the absence of monthly and annual oil and production reports.

Cause: It could not be determined if the Contractor ever provided the District with the required information as specified in the professional services agreement dated January 14, 2014, or why the Contractor does not regularly bill the District for management fees associated with oil and gas production, royalty payments, lease bonus considerations as allowed under the terms of the contract or whether the amounts are intended to be billed for in the future.

Auditors' Recommendations: We recommend the District demand a written communication from the Contractor outlining his intentions regarding unbilled amounts described above and also demand monthly and annual accounting of oil and gas production, royalty payments, and lease bonus considerations, and other payments required under the terms of the contract.

Agency's Response: We concur with the finding and recommendation as stated.

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

A. Financial Statement Findings

FS 2014-003 Inadequate Monitoring of Collateral-(other matter)

Condition: During our testwork of compliance requirements relating to pledged collateral it was noted the District management was not periodically reviewing collateral statements in comparison with the bank balance related to its certificate of deposit (CD) balances to ensure public money is adequately collateralized in the event of bank failure. The October 2014 collateral statements related to CD balances had to be requested from the financial institution during the course of audit fieldwork. All October 2014 collateral statements for all bank accounts owned by the District were requested and subject to inspection.

Criteria: Good accounting practices required period comparison between bank deposit balances and collateral on hand to ensure public money is safeguarded in the event of bank failure.

Any bank designated a deposit of public money shall deliver pledged collateral with a value equal to one half the amount of the public money in excess of insurance, to a custodial bank and a joint safekeeping receipt issued by the custodial bank to the District (Section 6-10-17 NMSA 1978). Monitoring collateralization of the District's funds is essential in ensuring compliance with State of New Mexico Statutes.

Effect: Without periodic monitoring of collateral in comparison with bank deposit balances, the District's bank collateral at any point in time could be below legal requirements as specified above.

Cause: The District's management was not aware it was required to monitor collateral in comparison with deposits amounts periodically for CD balances.

Auditors' Recommendation: We recommend the District compare uninsured CD bank balances in comparison with collateral at least monthly.

Agency's Response: We concur with the finding. We will contact the bank to ensure collateral statements pertaining to the CDs are issued to the District monthly.

STATE OF NEW MEXICO
Carlsbad Irrigation District
Schedule of Findings and Responses
October 31, 2014

Section III – Schedule of Prior Year Audit Findings

FS 2013-001	Stale Dated Transactions Not Cancelled	Resolved
FS 2013-002	IPA Recommendation Form and Contract	Resolved
FA 2013-001	Bonus Paid to Employees with Federal Funds	Resolved

STATE OF NEW MEXICO
Carlsbad Irrigation District
Other Disclosures
October 31, 2014

Exit Conference

An exit conference was held on March 25, 2015. In attendance were the following:

Representing Carlsbad Irrigation District:

Gary Walterscheid	Vice President
Dale Ballard	Manager
Shirley Talbot	Accounts Payable Specialist

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.