

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2005

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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JUNE 30, 2005

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STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
OFFICIAL ROSTER
JUNE 30, 2005

JUDGES OF THE DISTRICT COURT
SECOND JUDICIAL DISTRICT OF THE STATE OF NEW MEXICO

Honorable Marie Baca	Division No. 1
Honorable James F. Blackmer	Division No. 2
Honorable John Romero	Division No. 3
Honorable Linda M. Vanzi	Division No. 4
Honorable Ted Baca	Division No. 5
Honorable Neil Candelaria	Division No. 6
Honorable John J. Romero	Division No. 7
Honorable Ross C. Sanchez	Division No. 8
Honorable Mark A. Macaron	Division No. 9
Honorable Theresa Baca	Division No. 10
Honorable Ernesto J. Romero	Division No. 11
Honorable Clay Campbell	Division No. 12
Honorable Valerie A. Huling	Division No. 13
Honorable J. Michael Kavanaugh	Division No. 14
Honorable Richard Knowles	Division No. 15
Honorable Robert L. Thompson	Division No. 16
Honorable Nan G. Nash	Division No. 17
Honorable Denise Barela Shepard	Division No. 18
Honorable Albert S. (Pat) Murdoch	Division No. 19
Honorable William F. Lang	Division No. 20
Honorable Angela A. Jewell	Division No. 21
Honorable Deborah Davis Walker	Division No. 22
Honorable Geraldine F. Rivera	Division No. 23
Honorable Kenneth Martinez	Division No. 24

BOARD OF DIRECTORS

	<u>Position No.</u>	<u>County</u>
Jose U. Otero, Chairman	5	Valencia
Gary Perry, Vice-Chairman	6	Socorro
Augusta Meyers	1	At-large
Hector Gonzales	2	Bernalillo
Joseph Griego	3	Bernalillo
James C. Roberts	4	Bernalillo
Jimmy Wagner	7	Sandoval

OFFICERS

Subhas K. Shah	Chief Engineer and Chief Executive Officer
Jeanette Bustamante	Administrative Officer
Law & Resource Planning Associates	General Counsel



INDEPENDENT AUDITOR'S REPORT

The Judges of the District Court of the
Second Judicial District of the State
of New Mexico
and
The Board of Directors of the
Middle Rio Grande Conservancy District
and
Mr. Domingo P. Martinez, CGFM
State Auditor

We have audited the accompanying financial statements of the governmental activities and each major fund of the Middle Rio Grande Conservancy District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As more fully described in note 11B to the financial statements, a U.S. District Court ruling granted title to certain Middle Rio Grande Conservancy District property to the U.S. Government. The District has appealed this ruling. If this ruling is upheld and if the facts behind the ruling were to apply to all District structures and related land tracts the impact on the accompanying financial statements could be significant. The dollar impact of this ruling on the District assets, liabilities, fund balances, net assets and revenues has not been determined.

In our opinion except for the effects described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Middle Rio Grande Conservancy District as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2005 on our consideration of Middle Rio Grande Conservancy District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Middle Rio Grande Conservancy District's basic financial statements. The Schedule of Cash Accounts and Pledged Collateral is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mackie, Reid & Company

Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
December 19, 2005

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The Middle Rio Grande Conservancy District's discussion and analysis is provided as an overview of the District's financial activities for the fiscal year ending June 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8 and 9), provide information about the District as a whole and presents a longer term view of the District's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. This discussion and analysis of the District should be read in conjunction with these financial statements.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$ 2.5 million or 8.3% for the year ended June 30, 2005.
- Program generated revenues totaled \$ 3.5 million for the year ended June 30, 2005.
- Program related expenditures amounted to \$12.8 million during the same period.
- General revenues were \$11.8 million for the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - management's discussion and analysis, and the basic financial statements which includes supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in greater detail than the government-wide statements.
 - Governmental Funds statements tells how general government services were financed in the short-term as well as what remains for future spending.
 - A Budgetary Comparison statement compares actual results with budgeted or anticipated results.

Statement of Net Assets and Statement of Activities

Our analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statement of net assets and statement of activities report information about the District as a whole and about it's activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Statement of Net Assets and Statement of Activities (continued)

These two statements report the District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether it's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's ad valorem tax base and the condition of the District's facilities, to assess the overall health of the District.

All of the District's services are included within the statement of net assets and statement of activities as governmental activities. These services include constructing and maintaining a distribution system for irrigation, maintaining flood protection and river control, water storage facilities and other improvements considered necessary for public health, safety, convenience and welfare. Ad valorem assessments and water service assessments finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

The District has one type of fund - governmental. All of the District's basic services are included in governmental funds, which focus on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services we provide. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance District programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation following each fund financial statement.

FINANCIAL ANALYSIS

Total assets at June 30, 2005 and 2004, were \$36,512,519 and \$33,611,110, respectively. As of June 30, 2005 and 2004, the District held land and capital assets of \$ 7,816,676 and \$7,296,923, respectively, net of accumulated depreciation of \$8,795,319 in 2005 and \$9,579,211 in 2004. Other assets amounted to \$28,695,843 as of June 30, 2005 and \$26,314,187 as of June 30, 2004. Total liabilities as of June 30, 2005 and 2004, respectively were \$2,959,190 and \$2,625,223 including current liabilities of \$2,033,951 in 2005 and \$1,762,215 in 2004. Total long-term liabilities as of June 30, 2005 and 2004 were \$925,239 and \$863,008, respectively. As of June 30, 2005 net assets include unrestricted net assets of \$26,318,558 and \$7,234,771 invested in capital assets, net of related debt. As of June 30, 2004, net assets included unrestricted net assets of \$24,317,391 and \$6,668,496 invested in capital assets, net of related debt. The District continues to manage our resources and reserves in a competent and conservative manner.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

FINANCIAL ANALYSIS (CONTINUED)

Total revenues for the years ended June 30, 2005 and 2004 were \$ 15,385,728 and \$15,420,671, respectively. This includes general revenues (ad valorem assessments and delinquency charges, interest, land sales, water bank leases, and property sales) of \$11,845,213 in 2005 and \$11,950,381 in 2004, and program revenues (water service assessments, grants, contract revenue and other) in the amount of \$3,540,515 in 2005 and \$3,470,290 in 2004. Total expenses were \$12,818,286 in 2005 and \$12,428,759 in 2004. The total change in net assets for the years ended June 30, 2005 and 2004 was an increase of \$2,567,442 and \$2,991,912, respectively, resulting in net asset balances of \$33,553,329 and \$30,985,887 as of June 30, 2005 and 2004, respectively. The above comparisons are after considering the net asset restatement as described in note 14 to the financial statements. Overall, revenues were comparable, with ad valorem assessments lower than last year while water service assessments, grants, delinquency charges, interest income and asset sales were slightly higher. Overall, expenses were 3.1% higher with the increase seen in the personnel service and employee benefits classifications. The increase in net assets illustrates the District's continuing ability to maximize sources of revenue while controlling program expenses.

At June 30, 2005 and 2004, total equity in all funds was \$25,139,846 and \$22,526,516, respectively. For the year ended June 30, 2005 this includes \$7,022,589 designated for endowment, \$628,919 reserved for inventories, \$104,664 reserved for encumbrances outstanding at year-end and \$2,500,000 reserved for the next years budget. For the year ended June 30, 2004 this included \$6,916,531 designated for endowment, \$630,837 reserved for inventories and prepaid expenses, \$102,219 reserved for encumbrances outstanding at year-end and \$875,000 reserved for the subsequent years budget. The District's unreserved undesignated portion of fund balance as of June 30, 2005 and 2004 respectively, is \$13,631,942 and \$14,001,929.

For the year ended June 30, 2005 there was an overall excess of revenues over expenditures of \$2,613,330. This includes an excess in the general fund of \$2,489,167 and an excess in the special revenue fund in the amount of \$124,163. Total available revenue sources were \$1.3 million higher in 2005 than 2004. The major difference included the collection of three years of contractual revenue from the Bureau of Indian Affairs amounting to \$1.35 million. There were no collections in 2004. Available ad valorem assessments were down \$580,000 in 2005 while available other revenues were up \$530,000. Total expenditures were \$925,000 higher in 2005 than 2004. Of that increase, \$210,000 is attributable to capital outlay including amounts for new District accounting software. The balance of the increase is generally related to personnel service (including termination pay) and employee benefits. For the year ended June 30, 2004, the excess of revenues over expenditures in the governmental funds was \$2,146,282. This included an excess in the general fund of \$2,012,770 and an excess in the special revenue fund of \$133,512. Ad valorem assessments and grants were up from the prior year.

General Fund Budgetary Highlights

The District follows defined procedures in establishing the budgetary data reflected in the financial statements. The District submits a proposed budget to the Governing Board and to the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) for the fiscal year commencing the following July 1. The Governing Board and DFA must approve the budget prior to its legal enactment. The original fiscal year budget as presented was approved by DFA. The District does not adopt a legal budget for the special revenue fund.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The expenditures of the general fund may not legally exceed the budget. Adjustments within the budget line items must be approved by the Board of Directors. Any increases to budgeted line items must also be submitted to and approved by DFA in the form of a "budget adjustment request". The final budget as presented does not include any adjustments. The budgetary comparisons are presented on a non- GAAP budgetary basis which includes encumbrances as expenditures and does not include capital outlay financed through capital lease transaction sources, but rather includes actual lease payments made. For the fiscal years ended June 30, 2005 and 2004, the District budgeted expenditures to exceed revenues by \$875,000 and \$362,871, respectively. Reserves of cash and investments were used to complete the budget process.

For the year ended June 30, 2005, actual budgeted revenues received were \$16,099,929, which exceeded anticipated revenues by \$3 million. The reasons for the budget excess include favorable variances in ad valorem and water service assessment collections, increased operating grant activity, increased delinquency charges and interest income, and contract revenue from governmental entities as previously noted.

For the year ended June 30, 2004, actual revenues received were \$14,787,843, which exceeded budgeted revenues by \$1.3 million. The reasons for the budget excess included increases in ad valorem assessment collections and increased operating grant activity.

Actual expenditures did not exceed budgeted expenditures for the 2005 and 2004 fiscal years. Actual expenditures for the years ended June 30, 2005 and 2004, were \$13,613,205 and \$12,700,678 respectively, for a favorable variance of \$379 thousand in 2005 and \$1.15 million in 2004. Year 2005 variance in the field expense line item resulted from grant activity not originally budgeted. The District continues to capably budget for and monitor expenditures, particularly in the areas of personnel services and employee benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2005 and 2004, the District owned \$16,611,995 and \$16,876,134, respectively, of land and capital assets. This included \$10,924,150 in 2005 and \$11,825,190 in 2004 invested in equipment and vehicles to maintain District facilities; \$3,427,669 in 2005 and \$3,417,580 in 2004 invested in land and buildings; \$1,133,388 in 2005 and \$611,344 in 2004 invested in infrastructure; and \$1,126,788 in 2005 and \$1,022,020 in 2004 invested in office furniture and related equipment. Additions to capital assets for the fiscal years ended June 30, 2005 and 2004 were \$1,376,851 and \$1,166,592, respectively. Major additions for the current fiscal year included heavy equipment acquired under capital lease, additional purchased and constructed infrastructure and new vehicles and accounting software purchased. Deletions for the current year totaled \$1,640,990. During the year the District disposed of \$1,640,674 of original cost in equipment via an auction and received \$88,000 of proceeds.


Ending accumulated depreciation as of June 30, 2005 and 2004 was \$8,795,319 and \$9,579,211, respectively. Net book value of capital assets was \$7,816,676 as of June 30, 2005 and \$7,296,923 as of June 30, 2004.

New capital leases for the years ending June 30, 2005 and 2004 totaled \$236,384 and \$142,723, respectively. All lease obligations were incurred for the purchase of heavy equipment. Typically, all new leases carry a five year amortization with title resting with the District upon inception. Principal repayments on capital lease obligations for the year ending June 30, 2005 and 2004 were \$282,907 and \$364,939, respectively. Included in capital asset balances as of June 30, 2005 and 2004 is \$1,187,595 and \$1,310,941 respectively worth of leased heavy equipment. Ending capital lease obligations were \$581,905 as of June 30, 2005 and \$628,428 as of June 30, 2004.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

DISTRICT HIGHLIGHTS

The District continues to be financially sound and fiscally conservative year after year, despite the presence of outside factors and influences that may threaten the very existence of the District. The District has not permitted ongoing litigation to hamper efforts to provide services to our constituents. Tax mill rates for fiscal year 2005-2006 have been reduced by 7.2%. Water services charges per acre have not been raised since 1995. Operating expenditures have remained within budgeted limits. The District's overall economic outlook is favorable.

During fiscal year 2005, six Western states, including Idaho, Kansas, Texas, Arizona, Montana and New Mexico were awarded federal grants under a new Water 2025 program developed specifically for innovative state projects that reduce the likelihood of conflict over scarce water supplies in the region. As part of this six state grant program, the District was awarded \$3.5 million to improve and modernize irrigation facilities to increase water conveyance efficiency, reduce system losses due to seepage and evaporation, and improve water management in the Middle Rio Grande Valley. System improvements will include replacement of turnouts and old gates, concrete lining of canals, telemetry and measurement devices, and automation. The Water 2025 project will also develop a computer system that can manage hundreds of automatic gates while providing system information on the internet that other water agencies can use for managing flows of the Rio Grande. The grant was awarded under a 50-50 cost sharing agreement, which allows the District to better leverage its money and resources. 

During the fiscal year, the District operated without some key employees, including a Secretary and a Treasurer. In December 2005, the District consolidated both positions and hired a Secretary/Treasurer. The challenge of operating without filling these key positions was overcome by the dedication and hard work of other employees who were required to assume the job duties of the departed staff members. The District continued to deliver services to its customers.

Ongoing litigation continues to challenge the District. During the fiscal year ending June 30, 2005, the District remained deeply involved in two material issues, one regarding the silvery minnow case and the other a dispute with the U.S. Bureau of Reclamation (U.S.B.O.R.) over title to District lands and facilities. In the silvery minnow case, the 10th U.S. Circuit Court of Appeals has ruled that the U.S.B.O.R. may reduce deliveries of available water to District constituents to comply with the Endangered Species Act. In July 2005, the U.S. District Court ruled in favor of the U.S.B.O.R. over title to District lands and facilities. The District has appealed this ruling to the 10th U.S. Circuit Court of Appeals.

The ultimate impact of these claims on the District cannot be determined at this time and may not be in the foreseeable future. Management will continue to vigorously pursue favorable resolutions to these matters.

CONTACTING DISTRICT MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, legislators, and other stakeholders a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

Middle Rio Grande Conservancy District
1931 Second Street SW
PO Box 581
Albuquerque, NM 87103
(505) 247-0234

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STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,446,585
State Treasurer's investment pool	23,611,954
Receivables, net of allowances:	
Ad valorem assessments, net of allowance of \$112,788	1,675,621
Water service and delinquency charges, net of allowance of \$130,836	434,469
Contracts and other	350,747
Grants	498,647
Interest	45,995
Due from Board member	2,906
Material and supply inventories, at cost	628,919
Capital assets:	
Land	457,224
Depreciable buildings, property and equipment, net	<u>7,359,452</u>
Total assets	<u>36,512,519</u>
Liabilities	
Vouchers payable	1,014,239
Accrued payroll and related benefits payable	272,101
Other liabilities	137,994
Accrued use permit, payable after one year	269,500
Compensated absences:	
Payable within one year	369,283
Payable after one year	314,168
Obligations under capital lease:	
Portion due within one year	240,334
Portion due after one year	<u>341,571</u>
Total liabilities	<u>2,959,190</u>
Net assets	
Invested in capital assets, net of related debt	7,234,771
Unrestricted	<u>26,318,558</u>
Total net assets	<u>\$ 33,553,329</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	<u>Governmental Activities</u>
Expenses	
Personnel services	\$ 6,139,368
Employee benefits	2,078,087
Contractual operating and maintenance services	373,978
Field expenses	1,992,640
General and administrative expenses	1,599,571
Depreciation	856,346
Interest	29,883
Internal costs capitalized	<u>(251,587)</u>
Total program expenses	<u>12,818,286</u>
Program revenues	
Water service assessments	1,584,788
Operating grants	1,006,425
Contract revenue from governmental entities	796,765
Other revenue	<u>152,537</u>
Total program revenues	<u>3,540,515</u>
Net program expense	<u>(9,277,771)</u>
General revenues	
Ad valorem assessments	10,973,697
Delinquency charges	213,723
Interest on investments	451,522
Land sales and water bank leases	117,771
Property sales	<u>88,500</u>
Total general revenues	<u>11,845,213</u>
Increase in net assets	2,567,442
Net assets, beginning of year, as previously reported	30,744,960
Restatement for internal costs capitalized	<u>240,927</u>
Net assets, beginning of year as restated	<u>30,985,887</u>
Net assets, end of year	<u>\$ 33,553,329</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 952,167	\$ 494,418	\$ 1,446,585
State Treasurer's investment pool	17,002,954	6,609,000	23,611,954
Receivables, net of allowances:			
Ad valorem assessments, net of allowance of \$112,788	1,675,621	-	1,675,621
Water service and delinquency charges, net of allowance of \$130,836	434,469	-	434,469
Contracts and other	331,868	18,879	350,747
Grants	498,647	-	498,647
Interest	45,995	-	45,995
Due from Board member	2,906	-	2,906
Material and supply inventories, at cost	<u>628,919</u>	<u>-</u>	<u>628,919</u>
Total assets	\$ <u>21,573,546</u>	\$ <u>7,122,297</u>	\$ <u>28,695,843</u>
Liabilities and fund balances			
Liabilities			
Vouchers payable <i>Legal Fee 2004-2005</i>	\$ 1,014,239	\$ -	\$ 1,014,239
Accrued payroll and related benefits payable	272,101	-	272,101
Other liabilities	137,994	-	137,994
Deferred revenue	<u>2,131,663</u>	<u>-</u>	<u>2,131,663</u>
Total liabilities	<u>3,555,997</u>	<u>-</u>	<u>3,555,997</u>
Fund balances			
Reserved for inventories	628,919	-	628,919
Reserved for encumbrances	104,664	-	104,664
Unreserved:			
Designated for endowment	-	7,022,589	7,022,589
Designated for subsequent years expenditures	2,500,000	-	2,500,000
Designated for general budget reserve	1,251,732	-	1,251,732
Undesignated	<u>13,532,234</u>	<u>99,708</u>	<u>13,631,942</u>
Total fund balances	<u>18,017,549</u>	<u>7,122,297</u>	<u>25,139,846</u>
Total liabilities and fund balances	\$ <u>21,573,546</u>	\$ <u>7,122,297</u>	\$ <u>28,695,843</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental funds (Governmental funds balance sheet)	\$ 25,139,846
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,816,676
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.	2,131,663
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Capital lease obligations	\$ (581,905)
Accrued use permit	(269,500)
Compensated absences	(683,451)
Total liabilities	(1,534,856)
Net assets of governmental activities (Statement of net assets)	\$ <u>33,553,329</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues:			
Ad valorem assessments	\$ 10,987,495	\$ -	\$ 10,987,495
Water service assessments	1,574,876	-	1,574,876
Delinquency charges	202,857	-	202,857
Interest on investments	445,473	6,049	451,522
Contract revenue from governmental entities	1,640,008	-	1,640,008
Operating grants	1,006,425	-	1,006,425
Water bank leases	-	17,061	17,061
Land sales	-	101,053	101,053
Property sales	88,909	-	88,909
Other revenue	<u>151,216</u>	<u>-</u>	<u>151,216</u>
 Total revenues	 <u>16,097,259</u>	 <u>124,163</u>	 <u>16,221,422</u>
Expenditures:			
Current operations	12,154,835	-	12,154,835
Capital outlay	1,376,851	-	1,376,851
Debt service:			
Obligations under capital lease -			
Principal	282,907	-	282,907
Interest	<u>29,883</u>	<u>-</u>	<u>29,883</u>
 Total expenditures	 <u>13,844,476</u>	 <u>-</u>	 <u>13,844,476</u>
 Excess of revenues over expenditures	 2,252,783	 124,163	 2,376,946
Other financing sources:			
Capital leases	<u>236,384</u>	<u>-</u>	<u>236,384</u>
 Net change in fund balances	 2,489,167	 124,163	 2,613,330
 Fund balances at June 30, 2004	 <u>15,528,382</u>	 <u>6,998,134</u>	 <u>22,526,516</u>
 Fund balances at June 30, 2005	 \$ <u>18,017,549</u>	 \$ <u>7,122,297</u>	 \$ <u>25,139,846</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net change in fund balances - (Statement of revenues, expenditures and changes in fund balances)	\$ 2,613,330
Governmental funds report capital outlay as expenditures, while in the statement of activities the cost of these assets is capitalized.	1,376,851
Governmental funds do not report depreciation expense which is recorded in the statement of activities.	(856,346)
In the statement of activities, cost of assets disposed are included, whereas in the governmental funds the proceeds from asset dispositions are included. Thus, the change in net assets differs from the change in fund balance by the net cost of assets disposed.	(752)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, net of prior year effect.	(834,942)
Governmental funds do not report the net change in compensated absences and the accrued use permit fee.	222,778
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. This is the amount by which repayments of capital leases exceeds proceeds of capital leases.	<u>46,523</u>
Increase in net assets of governmental activities (Statement of activities)	\$ <u>2,567,442</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS) BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Ad valorem assessments	\$ 10,387,312	\$ 10,387,312	\$ 10,987,495	\$ 600,183
Water service assessments	1,400,000	1,400,000	1,574,876	174,876
Delinquency charges	77,000	77,000	202,857	125,857
Interest on investments	172,000	172,000	445,473	273,473
Contract revenue from governmental entities	676,344	676,344	1,640,008	963,664
Operating grants	298,285	298,285	1,006,425	708,140
Other	<u>106,300</u>	<u>106,300</u>	<u>242,795</u>	<u>136,495</u>
Total revenues	<u>13,117,241</u>	<u>13,117,241</u>	<u>16,099,929</u>	<u>2,982,688</u>
Expenditures				
Current:				
Personnel services	6,863,676	6,863,676	6,384,143	479,533
Employee benefits	2,340,534	2,340,534	2,078,087	262,447
Contractual operating and maintenance services	400,000	400,000	373,977	26,023
Field expenses	1,682,645	1,682,645	2,303,764	(621,119)
General and administration expense	1,851,800	1,851,800	1,621,567	230,233
Capital outlay	<u>853,586</u>	<u>853,586</u>	<u>851,667</u>	<u>1,919</u>
Total expenditures	<u>13,992,241</u>	<u>13,992,241</u>	<u>13,613,205</u>	<u>379,036</u>
Excess (deficiency) of revenues over expenditures	\$ (875,000)	\$ (875,000)	\$ 2,486,724	\$ 3,361,724
Prior year cash and investment balance	\$ 14,658,916			

See accompanying notes to financial statements.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(1) Organization

The Middle Rio Grande Conservancy District (District) was created under the provisions of the Conservancy Act of New Mexico for the purpose of maintaining flood protection, river control, drainage, water storage for supplementing irrigation needs, constructing and maintaining a distribution system for irrigation, and other improvements for public health, safety, convenience and welfare. The District is a political subdivision of the State of New Mexico and a body corporate with all the powers of a public or municipal corporation and operated under a Board of Directors.

(2) Summary of Significant Accounting Policies

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The significant accounting policies established in GAAP and used by the District are discussed below.

The District presents their financial statements following GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – State and Local Governments. Certain of the significant elements in the Statement include:

- A management discussion and analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all District activities including presentation of fixed assets and related depreciation.

Other significant accounting policies established in GAAP and used by the District are discussed below.

(a) Reporting Entity

The Districts' basic financial statements include the accounts of all District operations which are financially accountable to the Board of Directors. There are no component units included in the reporting entity.

(b) Basic Financial Statements - GASB Statement #34

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The reporting model focus is on either the District as a whole or major individual funds (within the fund financial statements). Both government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The District did not have any business-type activities or fiduciary funds during the year ended June 30, 2005.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(2) Summary of Significant Accounting Policies (continued)

(b) Basic Financial Statements - GASB Statement #34 (continued)

The government-wide statement of activities reflects both the gross and net cost per functional category which are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues. The program revenues must be directly associated with the function. Program revenues include: (1) water service assessments to property owners whom have irrigation access, (2) operating grants which finance specific operating activities, and (3) contract revenue from governmental entities to finance maintenance of District infrastructure.

The net cost (by function) is normally covered by general revenues (ad valorem assessments, delinquency charges and interest revenue). The District does not currently employ indirect cost allocation systems.

This government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the current fiscal period. The District's net assets are reported in three parts - invested in capital assets net of related debt; restricted net assets (none held at June 30, 2005), and unrestricted net assets.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in the governmental category. There are no nonmajor funds.

The governmental fund statements are presented on a current financial resource focus and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the District's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column on the government-wide presentation.

(c) Fund Accounting

The accounts of the District are maintained on the basis of funds, each which is considered a separate accounting entity with its own self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The following fund types are utilized by the District:

Governmental Fund Types

General Fund - The General Fund is the operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The Special Revenue Fund accounts for the receipt of monies from the sale of District real property and the administration of water bank and other leases. The Governing Board directs this effort. Withdrawals are limited to the direct expenses associated with the sale of property.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(2) Summary of Significant Accounting Policies (continued)

(d) Basis of Accounting

Basis of accounting refers to the timing at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental activities in the government-wide financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. *This is Accrual*

The modified accrual basis of accounting uses the current financial resource focus and is followed by the governmental fund types for fund statement purposes. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred except for interest on general long-term obligations, which is recorded when due. Major revenue sources susceptible to accrual include ad valorem assessments and water service assessments and contract revenue from governmental units. Ad valorem assessments, water service assessments, and contract revenue from governmental entities are considered available if collected within thirty days of year end. Investment earnings are recorded as earned since they are measurable and available. Delinquency charges and other revenue are generally recorded as revenue when received in cash.

(e) Inventories

Inventories consist of expendable supplies, repair parts and fuel held for consumption. Inventories are valued on an average cost basis. The cost is recorded as an expenditure at the time the inventory items are consumed.

(f) Capital Assets

All capital assets purchased, constructed or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The District capitalizes purchased software and has no internally developed software. Other costs incurred for repairs and maintenance are expensed as incurred. The District's capitalization policy, i.e. the dollar value above which asset acquisitions are added to the capital accounts, is \$1,000.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(2) Summary of Significant Accounting Policies (continued)

(f) Capital Assets (continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The District estimates the useful lives of capital assets as follows:

Buildings and improvements	50 years
Office furniture and equipment	5-10 years
Engineering equipment	10 years
Communication equipment	10 years
Motor vehicles	6 years
Weed and pest control equipment	5 years
Heavy field equipment	15 years
Shop and field equipment	10 years
Infrastructure	20 years

The District recognizes certain infrastructure assets including dams, canals, laterals, acequias, waste-ways, levees, riverside and interior drains. The majority of this infrastructure was built prior to July 1, 1980. Infrastructure built and improved since July 1, 2002 has been capitalized. In accordance with GASB 34, the District has not yet capitalized any major general infrastructure created since July 1, 1980 and before July 1, 2002.

*How about
rip roll*

The District's financial statements recognizes title to various sections of land associated with their infrastructure. The land underneath and around all major facilities has been capitalized at estimated historical cost. The District also has been granted easements for right-of-way associated with some of their waterways, which also have been capitalized at estimated historical costs.

Pursuant to a U.S. District Court ruling the District does not have title to certain infrastructure and related land (see note 11). The facts of the ruling could apply to other District infrastructure and related land.

(g) Compensated Absences

Qualified employees are entitled to accumulate amounts of annual leave which is payable to the employee upon termination or retirement. Annual leave accrues at the rate of twelve days per year. Employees with over five years of service accrue at the rate of eighteen days per year. Employees with over twenty years of service accrue at the rate of twenty four days per year. The maximum accrual of annual leave is 240 hours unless approved by the District's Chief Engineer. At June 30, 2005, accrued compensated absences payable for accumulated annual leave totaled \$435,045.

*How many
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of 240*

Qualified employees are entitled to accumulate sick leave which is payable to the employee upon retirement or termination as annual leave. Sick leave accrues at the rate of twelve days per year. Employees whom have twenty years of service and whom are eligible for the Public Employee's Retirement Act benefits may convert sick leave to annual leave at the rate of three for two. Otherwise, sick leave hours in excess of 250 hours may be converted to annual leave hours at the rate of three for one. Sick leave hours in excess of 500 hours may be converted to annual leave hours at the rate of two for one. Sick leave hours in excess of 800 hours may be converted to annual leave hours at the rate of three for two. At June 30, 2005, accrued vested sick leave amounted to \$237,128.

Qualified employees may elect to treat overtime hours worked as compensatory time. Accrued vested compensatory leave amounted to \$11,278 at June 30, 2005.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(2) Summary of Significant Accounting Policies (continued)

(h) Deferred Compensation Plan

The District offers employees a deferred compensation plan established in accordance with Internal Revenue Code 457. The plan is available to all employees and permits participants to defer up to 25% of gross compensation not to exceed Internal Revenue Code limits. The employees are making contributions to the plan from payroll withholdings. The District does not make any contributions to the deferred compensation plan. All contributions withheld from participants by the District are paid to a third party which administers the plan.

(i) Capital Lease Obligations

Capital lease obligations are accounted for in the statement of net assets. The capital lease obligations are stated at the original fair market value of leased assets capitalized, less payments since inception of the lease discounted at the implicit rate of interest in the lease. Also, in the year an asset is acquired by capital lease, the expenditure for the asset and the offsetting amount of the financing source are reflected in the statement of revenues, expenditures and changes in fund balances. Assets acquired under capital lease are accounted for in the statement of net assets.

(j) Pension Plan

Substantially all of the employees of the District participate in a defined benefit contributory retirement plan through the Public Employees Retirement Act (PERA) of the State of New Mexico, a cost sharing multiple employer public employee retirement system.

(k) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss, including workers' compensation and employee health and accident insurance. Settled claims, excluding insurance deductibles, resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(l) Fund Balances

The District designates funds received from the sale of real property to form an endowment for the District. The amount designated for subsequent year expenditures are amounts necessary to balance the 2005-2006 year budget. The amount designated for general budget reserve is in accordance with state budget guidance. The District also records reserves to indicate that a portion of fund balance is segregated for a specific future use or is not available for appropriation and/or expenditure.

(m) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund. Encumbrances outstanding at year-end are reported as reservation of fund balance since they do not constitute expenditures or liabilities.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(2) Summary of Significant Accounting Policies (continued)

(n) Budgets and Budgetary Accounting

The District follows defined procedures in establishing the budgetary data reflected in the financial statements. The District submits a proposed budget for the general fund to its Board of Directors and to the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) for the fiscal year commencing the following July 1. DFA must approve the budget prior to its legal enactment. The district does not prepare a special revenue fund budget.

Expenditures of the general fund may not legally exceed the budget. Adjustments to the budget must be submitted to and approved by DFA in the form of a "budget adjustment request". The budget is adopted on a basis which is inconsistent with accounting principles generally accepted in the United States of America (GAAP). Expenditures related to current year capital lease acquisitions and the related financing source are not included. The budget treats encumbrances as expenditures. Budgetary comparisons presented for the general fund in this report are on this Non-GAAP budgetary basis. Each year the District determines amounts required for maintenance and operation expenditures. Based on that evaluation, the mill rate (for ad valorem assessments) and per acre rate charged (for water service assessments) are determined to bring expected revenues up to expected expenditures. Budget amounts are as originally adopted. All budget appropriations lapse at year end except for those amounts encumbered.

(o) Use of 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 the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(3) Stewardship, Compliance and Accountability

Current year budgeted expenditures exceeded budgeted revenues in the general fund by \$875,000. Prior year cash balances and investment balances were used to complete the budget process for this fund.

(4) Cash and Investments

The District is authorized to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States Government. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year.

Custodial risk is the risk that deposits are not returned in event of bank failure. At June 30, 2005, the carrying amount of the District's cash deposits was \$1,446,585. As of June 30, 2005, the bank balance on these accounts amounted to \$1,575,675. Funds in the amount of \$1,342,466 was exposed to custodial risk as follows:

Uninsured and uncollateralized	\$ 473,128
Uninsured and collateral held by the pledging bank's trust department not in the Districts' name	<u>869,338</u>
	\$ <u>1,342,466</u>

As of June 30, 2005, one demand deposit and two savings deposits with one financial institution were not subject to a collateral agreement as required by New Mexico State Statute. Uninsured funds of \$394,418 were not subject to the 50% collateral requirement. In October, 2005, the District obtained the required collateral.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(4) Cash and Investments (continued)

Investments include two accounts in the New Mexico State Treasurer's Local Government Investment Pool and are stated at cost/fair market value of \$23,611,954. The investments are valued at fair value based on quoted market prices as of June 30, 2005. The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10.1, NMSA 1978, empowers the State Treasurer, with advice and consent of the State Board of Finance to invest money held in the short-term investment fund in securities that are issued by the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NM 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts in the fund were invested. Participation in the local government investment pool is voluntary. The District does not have a formal investment policy that manages fair value losses arising from increasing interest rates. The Local Government Investment Pool itself is not risk rated. Individual purchased securities in the pool are risk rated and follow the New Mexico State Treasurer's Office Investment Policy. The full balance is subject to custodial risk.

Beginning July 1, 2004, the District records the interest income earned on the endowment fund investment in the New Mexico State Treasurer Local Government Pool into the general fund. The interest earned amounted to \$140,214 for the year ended June 30, 2005.

(5) Water Service and Ad valorem Assessments

→ District water service assessments (program revenues) and ad valorem assessments (general revenues) are levied and recorded as revenue each calendar year on November 1, based on serviceable, irrigatable acreage, as determined by the District, or taxable property valuations as determined by the four county assessors within the District boundaries. Water service assessments and ad valorem assessments are due in two equal installments on December 1 and May 1 following the levy, after which they become delinquent. At June 30, 2005, all outstanding ad valorem assessments and water service assessments are delinquent.

Under the modified accrual basis of accounting, all water service assessments collected by the District and ad valorem assessments collected by the counties and remitted to the District within thirty days of year end are recorded as revenue with all water service and ad valorem assessments not collected within thirty days following year end being reported as deferred revenue within the governmental funds. Under the full accrual basis of accounting water service and ad valorem assessments are recorded as a receivable and revenue when billed to taxpayers. For the year ending June 30, 2005, water service assessments were assessed and levied at a uniform rate per acre of \$28.00 based on acreage approximating 56,700 acres. Residential property was assessed and levied at an ad valorem of \$4.98 per \$1,000 of valuation and nonresidential property was assessed and levied at an ad valorem of \$6.23 per \$1,000 valuation based on valuations determined by the county assessors. Valuations by the counties for current and prior years are continually being modified pursuant to present laws, rules and regulations.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(5) Water Service and Ad valorem Assessments (continued)

Lien rights are available to the District on all delinquent water service and ad valorem assessments. At June 30, 2005, allowance for uncollectible ad valorem assessments and water service assessments and delinquency charges amounted to \$112,788 and \$130,836, respectively. The District computes allowances on all unpaid water service assessments and delinquency charges and ad valorem assessments greater than four years old.

(6) Capital Assets

A summary of changes in capital assets follows:

Cost:	Balance July 1, 2004	Additions	Adjustments/ Deletions	Balance June 30, 2005
Land	\$ 457,567	\$ -	\$ 343	\$ 457,224
Buildings	2,960,013	10,432	-	2,970,445
Office furniture and equipment	1,022,020	256,445	151,677	1,126,788
Equipment:				
Heavy equipment	6,525,450	258,347	965,260	5,818,537
Motor vehicles	4,790,730	296,474	520,460	4,566,744
Shop and field equipment	137,717	13,725	-	151,442
Weed and pest control equipment	271,692	16,470	1,775	286,387
Communication equipment	13,457	2,914	1,475	14,896
Engineering equipment	86,144	-	-	86,144
Infrastructure:				
Gates, gauges, dams and waterways	611,344	522,044	-	1,133,388
Total capital assets	<u>16,876,134</u>	<u>1,376,851</u>	<u>1,640,990</u>	<u>16,611,995</u>
Accumulated depreciation:				
Buildings	795,260	60,733	-	855,993
Office furniture and equipment	753,508	80,817	151,623	682,702
Equipment:				
Heavy equipment	3,844,427	303,015	964,906	3,182,536
Motor vehicles	3,767,342	356,893	520,460	3,603,775
Shop and field equipment	97,758	7,188	-	104,946
Weed and pest control equipment	232,378	15,119	1,775	245,722
Communication equipment	12,186	703	1,474	11,415
Engineering equipment	76,269	2,068	-	78,337
Infrastructure:				
Gates, gauges, dams and waterways	83	29,810	-	29,893
Total accumulated depreciation	<u>9,579,211</u>	<u>856,346</u>	<u>1,640,238</u>	<u>8,795,319</u>
Capital assets, net	<u>\$ 7,296,923</u>	<u>\$ 520,505</u>	<u>\$ 752</u>	<u>\$ 7,816,676</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(6) Capital Assets (continued)

Depreciation expense for the year ended June 30, 2005 amounted to \$856,346, and is included under program expenses of governmental activities in the Statement of Activities. The beginning balance of infrastructure as of June 30, 2004, is restated to reflect capitalized internal costs of \$240,927 occurring during the year ended June 30, 2004.

(7) Deferred Revenue

Receivables which do not meet the "available" criteria for revenue recognition under the modified accrual basis of accounting are recorded as deferred revenue. Deferred revenue at June 30, 2005 is attributable to the following receivables:

Ad valorem assessments	\$ 1,431,866
Water service and delinquency charges	412,913
Contracts	<u>286,884</u>
	<u>\$ 2,131,663</u>

(8) Long-Term Liabilities

Obligations Under Capital Lease

Obligations under capital lease consist of light and heavy equipment lease purchases. Terms of the agreements require monthly payments aggregating \$22,013 (at June 30, 2005) with individual monthly payments ranging from \$1,330 to \$4,761. Each lease term requires sixty payments. Interest rates reflected within the lease agreements range from 3.932% to 4.762%. Title to the equipment rests with the District upon inception of the lease. The lessor retains a security interest in the equipment during the term of the agreement. Each agreement contains clauses regarding sources of funding for the monthly payments as well as a nonappropriation clause which can terminate the respective lease. These leases have been treated as capital leases as these agreements are considered to transfer the benefits and risks of ownership to the District.

The following is a summary of changes in capital lease obligations for the year ended June 30, 2005:

<u>Obligations Under Capital Lease</u>	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Portions due within one year	\$ 246,239	\$ -	\$ 5,905	\$ 240,334
Portions due after one year	<u>382,189</u>	<u>236,384</u>	<u>277,002</u>	<u>341,571</u>
	<u>\$ 628,428</u>	<u>\$ 236,384</u>	<u>\$ 282,907</u>	<u>\$ 581,905</u>

The District has \$1,187,595 of leased equipment capitalized as of June 30, 2005 with \$217,694 in accumulated depreciation.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2005.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 240,334	\$ 23,822
2007	167,726	7,449
2008	107,087	5,197
2009	53,642	1,843
2010	<u>13,116</u>	<u>98</u>
Total minimum lease payments	<u>\$ 581,905</u>	<u>\$ 38,409</u>

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(8) Long-Term Liabilities (continued)

Accrued Compensated Absences

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2005:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2005</u>
Compensated absences payable				
Payable within one year	\$ 694,910	\$ 369,283	\$ 694,910	\$ 369,283
Payable after one year	<u>233,319</u>	<u>432,629</u>	<u>351,780</u>	<u>314,168</u>
	\$ <u>928,229</u>	\$ <u>801,912</u>	\$ <u>1,046,690</u>	\$ <u>683,451</u>

The general fund has been used to liquidate obligations under capital leases and accrued compensated absences

(9) Retirement Plan

Plan Description

Substantially all of the 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, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy

Plan members are required to contribute 3.2875% of their gross salary. (The District pays 75% of the employee contribution rate of 13.15%). The District is required to contribute 19.0125% of the plan members gross salary. The contribution requirements of plan members and the District are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ending June 30, 2005, 2004, and 2003 were \$1,116,481, \$1,078,761, and \$1,012,688, respectively, equal to the amount of the required contributions for each year.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(10) Post Employment Benefits

The District has adopted a policy whereby the District will pay sixty percent of an eligible retiree's health insurance policy premium when the retiree is not eligible for Medicare benefits at time of retirement and dental insurance premiums, including coverage for the retiree's eligible dependents.

Eligible retirees are those who have retired from the District through normal retirement or disability and do not qualify for Medicare. Benefits terminate once the retiree qualifies for Medicare. Upon the death of a retiree, his or her spouse and eligible dependents that do not qualify for Medicare will be eligible for the premium contribution with the same terms and conditions.

The District had twelve eligible retirees receiving benefits at June 30, 2004 and eleven eligible retirees receiving benefits at June 30, 2005. Costs of the plan are financed on a pay-as-you-go basis. For the year ended June 30, 2005, the District's portion of insurance premiums under this plan was \$48,316.

The Governmental Accounting Standards Board has issued statement 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. That statement will require the District to recognize the cost of the above described benefits in periods when the related services are received by the District and provide information about actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded. The statement requirements will also provide information useful in assessing demands on the Districts' future cash flows. Future effects of this statement have not been determined. This accounting principle will be effective July 1, 2007.

(11) Contingencies

A. Silvery Minnow

The District is party to a number of lawsuits regarding protection of the silvery minnow, a fish which is native to the Rio Grande river habitat and an endangered species, by various groups supporting the environment. These actions were in regards to the US federal government agencies' obligations and authorities to provide protection for the silvery minnow including river flow to accommodate their existence. The US District Court for New Mexico has ruled that the US Bureau of Reclamation has discretion to reduce deliveries of certain available water under its contracts with the District to comply with the Endangered Species Act. Currently, all parties to these proceedings are abiding by the existing ten year biological opinion issued by an U.S. Fish and Wildlife Service. The river flow requirements of the biological opinion to accommodate the silvery minnows continued existence have been met during the existing and previous irrigation seasons. It is the expectation of the District that the requirements of the biological opinion and operating practices to accommodate those requirements will not significantly impact the future operations of the District. The District filed a motion with the U.S. District Court to dismiss pending litigation. The District Court subsequently reaffirmed a previous decision, a notice of appeal has been filed in the 10th Circuit Court of Appeals.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(11) Contingencies (continued)

B. Title Claim

A matter that arose from the silvery minnow case had the federal government intervening on a quiet title suit brought by the District to establish ownership to all District facilities, including dams, canals, drains, bosque areas and all structures within District boundaries. The United States Government did not counter claim to establish ownership. The federal government contends that a contract signed in 1951 by the District and the U.S. Bureau of Reclamation whereby the U.S. Bureau of Reclamation agreed to significantly rehabilitate District facilities and provide ongoing maintenance, gave title to the federal government. The construction cost of the San Juan Chama Project and Middle Rio Grande Project were repaid by the District in prior years. It is the District's position that they granted an assignment of easement to the U.S. Bureau of Reclamation to operate on District property in order to accomplish the purpose of the contracts, but did not grant ownership. The suit was heard in US District Court in October, 2004.

In July, 2005 the U.S. District Court ruled with respect to certain specific significant District structures and land tracts that ownership of these properties resided with the U.S. government. Title to be reconvened only with U.S. congressional action. The District has appealed this ruling to the 10th U.S. Circuit Court of Appeals. As discussed above, the U.S. District Court additionally ruled that the United States Government has discretion to consult over the District's works and water rights. The District has appealed to the 10th US Circuit Court of Appeals.

The practical operating effect of the title case in the short term is not expected to be significant. Since year 1985, U.S. government actions have been as a security interest holder and has cooperated with the District with no compelling unilateral action. The District believes this scenario will continue at least through the appeal period or until congress acts to return title to the District. Were actions to change, such action could significantly impact operations of the District.

Within the accompanying financial statements, the impact of the ruling could be significant. The District has valued the above and other infrastructure land at approximately, \$325,000. In addition, the District has capitalized infrastructure improvements in the amount of \$1,133,388, of which \$522,044 was capitalized in the year ending June 30, 2005. If all property title was to rest with the U.S. Government such recorded property value would be overstated. The District has also established a designated endowment fund which holds \$7,022,589 of funds at year end generated from sales of District property. Such funds could be subject to title claims. In addition, the District has a revenue contract generating approximately \$50,000, annually which also could be subject to these title claims. The District financial statement presentation assumes all title issues will be resolved in the District favor.

C. Settlement of Claims

In the normal course of business, the District settles claims as necessary based on facts and circumstances. The Districts' obligation under these claims are not expected to significantly impact District operations.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

(12) Budgetary Basis to GAAP Basis Reconciliation

The reconciliation from the budgetary basis of accounting to the GAAP basis of accounting for the year ended June 30, 2005 is as follows:

	<u>General Fund</u>
Excess of revenues over	
expenditures on a non-GAAP budgetary basis	\$ 2,486,724
Prior year encumbrances	(102,221)
Current year encumbrances	104,664
Excess of revenues over expenditures on a GAAP basis	\$ 2,489,167

(13) Commitments

US Public law authorized the federal government to undertake appropriate planning, design and construction measures for wildfire prevention and restoration in the Middle Rio Grande Bosque a project known as The Bosque Restoration Project. In April, 2004, the District entered into a feasibility cost sharing agreement with the US Army Corps of Engineers for this project. The US Army Corps of Engineers will conduct the study and the District will perform as the local sponsor providing a 50% match for agreed upon costs. The projected three year study is estimated to cost \$2,046,500. Upon completion of the study, the District will assume applicable operation and maintenance requirements. In connection with the study, the New Mexico Energy, Minerals and Natural Resources Department, the agent of the State of New Mexico with authority to enter into contracts to prevent forest fires, agreed to provide funds for the match. This joint power grant provides match dollars in a maximum amount of \$991,100. Through June 30, 2005, the District has received \$500,000 from the State and paid this amount to the US Army Corps of Engineers for the study.

In September, 2004, the District entered into a cooperative assistance agreement with the U.S. Department of the Interior, Bureau of Reclamation. The agreement extends to December 30, 2008. The agreement requires total funding of \$5,081,850 with the District share at 50%. The federal funds are derived from the Western Water Initiative and will fund the Water 2025 project: Preventing Crises and conflict in the West. The Water 2025 project will specifically fund District construction of irrigation structures to improve operation and water management to provide for more efficient use of existing water supplies. The District has incurred expense match funds in conjunction with this project. Through June 30, 2005, the District has accounted for approximately, \$870,000 of match funds. The District has yet to incur costs relative to the federal share.

(14) Net Asset Restatement

Net assets in the government wide financial statements as of June 30, 2004 have been restated to reflect \$240,927 of internal costs capitalized relating to construction and improvement of District infrastructure. Previously reported net assets of \$30,744,960 has been increased to \$30,985,887.

(15) Related Party Transaction

The District has sold \$340 of fill dirt to a company owned by a District Board member.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
JUNE 30, 2005

Bank of America

	<u>General Fund</u>	<u>Water Bank Savings</u>	<u>Endowment Fund Savings</u>	<u>Total</u>
Balance per bank	\$ <u>33,209</u>	\$ <u>98,834</u>	\$ <u>395,584</u>	\$ 527,627
Less: FDIC coverage				<u>133,209</u>
Total uninsured public funds				394,418
50% collateral requirement				<u>197,209</u>
Pledged securities				-
Over (under)				\$ (<u>197,209</u>)

Wells Fargo Bank NM, NA

Balance per bank	\$ <u>1,048,048</u>			\$ 1,048,048
Less: FDIC coverage				<u>100,000</u>
Total uninsured public funds				948,048
50% collateral requirement				<u>474,024</u>
Pledged securities			(1)	<u>869,338</u>
Over (under)				\$ <u>395,314</u>

(1) Collateralized by

FNCT 254963, CUSIP #31371LFC8, Face value \$565,455, 5.50%, Due 10/01/23	\$ 573,047
FNCT 254832, CUSIP #31371LA90, Face value \$225,136, 5.50%, Due 8/01/23	229,822
GNSF 781264, CUSIP #36225BMM7, Face value \$54,702, 6.00%, Due 3/15/31	56,553
GNSF 781118, CUSIP #36225BG36, Face value \$8,307, 6.50%, Due 10/15/29	8,692
FNCL 250031, CUSIP #31371EVY8, Face value \$1,142, 7.50%, Due 5/01/24	<u>1,224</u>
	\$ <u>869,338</u>

Collateral held by Wells Fargo Bank California, San Francisco, CA



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

The Judges of the District Court of the
Second Judicial District of the
State of New Mexico
and
The Board of Directors of the
Middle Rio Grande Conservancy District
and
Mr. Domingo P. Martinez, CGFM
State Auditor

We have audited the financial statements of the governmental activities and each major fund of the Middle Rio Grande Conservancy District, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 19, 2005. The report was qualified due to the impact on the financial statements as a result of a U.S. District Court ruling that certain District property is titled with the U.S. Government. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Middle Rio Grande Conservancy District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Middle Rio Grande Conservancy District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 3-4, 3-6, 4-1, 5-1, 5-2, 5-5, 5-6, 5-7, 5-8, 5-10, 5-11, 5-13, 5-14 and 5-16.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The reportable conditions described above are considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Middle Rio Grande Conservancy District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings as items 3-1-, 3-3, 5-3, 5-4, 5-9, 5-12, 5-15, and 5-17.

This report is intended solely for the information of the New Mexico State Auditor, Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Mackie, Reid & Company

Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
December 19, 2005

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS
JUNE 30, 2005

Prior Year Findings Reported Not Repeated

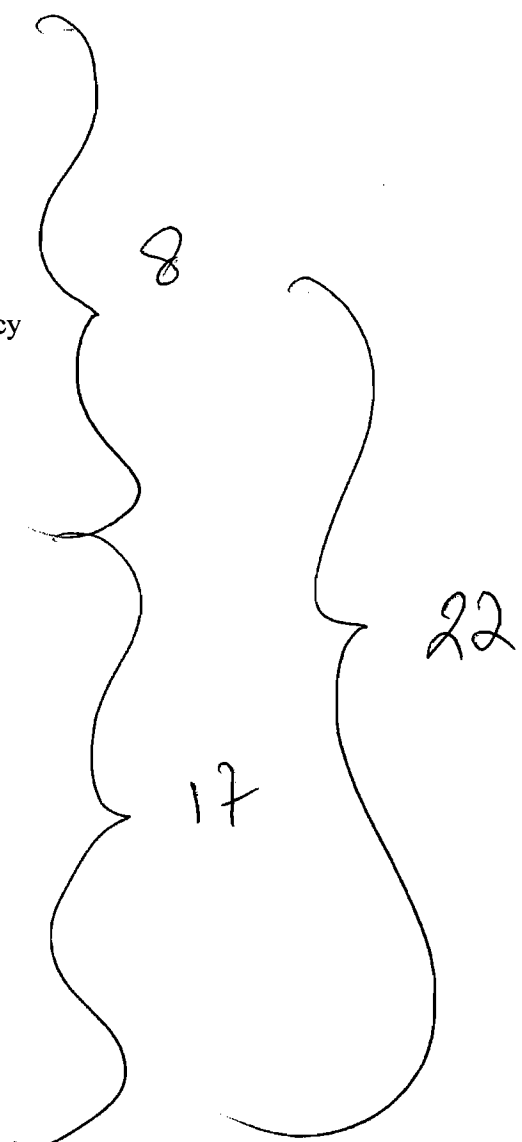
- 2-1 Personal Use of District Owned Vehicles
- 4-2 Procurement
- 4-3 Corporate Surety Bonds

Prior Year Findings Modified and Repeated

- 3-1 Per Diem, Mileage and Expense Reimbursement Policy
- 3-3 Retirement Contributions
- 3-4 Receivable Reporting
- 3-6 Endowment Fund
- 4-1 Personnel Policy - Payroll Transactions

Current Year Findings

- 5-1 Payroll and Benefit Transactions in General Ledger
- 5-2 Procurement-Disbursements
- 5-3 Land Sales
- 5-4 Bank Account Collateral
- 5-5 Inventory Valuation
- 5-6 Compilation of Vouchers Payable and Encumbrances
- 5-7 Infrastructure Assets Policies and Procedures
- 5-8 Financial Oversight
- 5-9 Audit Report Due Date
- 5-10 Internal Work Order Cost Reporting System
- 5-11 Cell Phone Usage
- 5-12 Grant Compliance
- 5-13 Damage Deposits
- 5-14 Internal Audit
- 5-15 District Response to Information Request
- 5-16 Monitoring of Fuel Usage
- 5-17 Board Policies



STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Prior Year Findings Modified and Repeated

3-1/Per Diem, Mileage and Expense Reimbursement Policy

Criteria

The Middle Rio Grande Conservancy District is governed by the New Mexico Per Diem and Mileage Act. The Act establishes per diem and mileage rates and defines circumstances under which local nonsalaried public officers (board members) may receive per diem for attendance at a board or committee meeting and certain other circumstances. The Board has adopted Rule No. 30 "Per Diem, Mileage and Expense Reimbursement Policy" as a means to ensure compliance by the District and the Board of Directors.

District practice requires the use of a per diem requisition form to document required per diem facts and be attached to each voucher created to make the per diem payment.

In instances where overnight travel is required the reimbursement may be based on actual lodging and meal expenses. Actual lodging and meal expense receipts must accompany the travel voucher when it is submitted for reimbursement.

Condition

In one instance where per diem was applicable for travel spent away from home in discharge of official business other than board or committee meetings, the reimbursement was prepared for actual lodging, travel and meal expenses. In this one instance actual receipts for lodging and meals in the amount of \$422 were not attached to the payment voucher.

Effect

Current practices regarding per diem payments are not fully compliant in accordance with Board rule No. 30 "Per Diem, Mileage and Expense Reimbursement Policy".

Cause

Current practices do not fully address requirements of Board rule No. 30 "Per Diem, Mileage and Expense Reimbursements Policy".

Recommendation

With respect to per diem we recommend the district continue to require proper documentation on actual expense reimbursements. We recommend the District follow up and obtain proper documentation on this questioned expenditure.

Response

An affidavit of expenses, in lieu of actual expenses, was obtained and provided as supporting documentation as allowed by Board Rule No. 30 "Per Diem, Mileage and Expense Reimbursement Policy. Management considers this finding as resolved.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Prior Year Findings Modified and Repeated

3-3/Retirement Contributions

Condition

During our review of Public Employee Retirement Act (PERA) contributions in our 2003 audit it was noted that the District had been remitting PERA contributions on wages that are not subject to PERA contributions. The District had been withholding the employee portion and contributing the employer portion of PERA for lump sum payments made to terminated employees. That practice was discontinued in fiscal year 2004. The District has submitted a request for reimbursement from PERA for these amounts for a period spanning approximately ten years. The request exceeded \$137,000 and related to 183 individuals. This issue has not been resolved with PERA.

Criteria

Salary and wages subject to PERA contributions do not include lump sum payments which are not part of an employee's fixed periodical compensation. Such lump sum payments include annual and sick leave payments made to terminated employees. Refund requests are subject to PERA regulations, policies and practices.

Effect

The District has overremitted the amount of employer and employee contributions to PERA that are attributable to these lump sum payments.

Cause

The District then was not aware of the rules regarding lump sum payments. Resolution efforts with PERA are complicated as these employee and employer remittances and lump sum payment reporting have impacted pension benefit determinations of terminated and retired employees.

Recommendation

The District should seek a resolution of this issue with PERA. If the District position is to forego the return of the overpayment such position should be discussed with legal counsel and formally approved by Board motion.

Response

Management will discuss with legal counsel and PERA and present a resolution for board consideration regarding PERA collection versus payment to retirees. Until a resolution is formally adopted, this finding is considered as on-going.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Prior Year Findings Modified and Repeated

3-4/Receivable Reporting

Condition

Our review of the accounting system within the District notes that the system does not always timely bill, collect or report certain District receivables. The District could improve on the timeliness of the billing and collecting on Joint Power/Grant Agreements, water storage, drainage and maintenance contracts and other miscellaneous receivables.

We noted that the dollar amount of delinquent water service charges and the number of delinquent accounts have again increased over last year. Dollar amounts have increased by approximately \$30,000 after considering ten year old account write-offs. A number of events and factors cause this number to grow. We believe a more proactive approach and defined steps is needed in contacting and following up on delinquent accounts. Goals should be established.

Criteria

Generally accepted accounting principles requires the accounting for and financial reporting of all assets (including receivables due an entity). Good internal controls dictate that policies, procedures and practices exist which oversee the billing, collection and reporting of receivables.

Effect

The absence of a receivable reporting system subjects the District to risk of asset loss. Cash flows of the District is impacted by the existing billing and collection procedures.

Cause

Employee turnover and job responsibilities have impacted these circumstances.

Recommendation

We recommend that the District implement a receivable reporting process. This process should reflect timely billings, collections and reports which allow management to act on uncollected revenues from all sources, as well as, provide receivable amounts for financial statement purposes.

Response

A newly hired Secretary/Treasurer will implement computerized procedures by investigating options within the District's current general ledger system. Excel spreadsheets and tickler files will also be investigated as a means to timely bill all receivables.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Prior Year Findings Modified and Repeated

3-6/Endowment Fund

Condition

The District via board resolution in July 1992, established an endowment fund to receive deposits from the sale of District real property and such other sources as the governing body may direct. As of June 30, 2005, this fund has \$7,022,589. The long term use purpose and operating governance of the fund was never created. The District invests their endowment fund with the New Mexico State Treasurer, earning short term overnight rates of return.

The District has investigated the New Mexico State Investment Council to be the investment manager for District Funds. In addition, the District adopted an investment policy on July 25, 2005. This policy includes an asset allocation strategy. The investment policy addressed both the general fund reserve and the board designated endowment fund of the District. The District has signed a required joint powers agreement with the State Investment Council to proceed.

The District has not yet stated the long term purpose and governance of the endowment fund. This purpose should be established prior to committing funds to an investment structure that may require investment periods of five to ten years to earn desired long term investment rates. This investment period must coincide with governance purpose of the fund.

General operating reserves of the District should require a different investment policy then those established for a long term endowment fund. The available life of such funds are inherently different and require different tolerances for risk and investment structures.

Criteria

The District has a fiduciary responsibility to maximize investment returns on those funds which are not needed for current operations. Investment strategies and vehicles should comply with state law and board policy.

Effect

Potential revenues have not been maximized.

Cause

The District has not established the long term governance of the endowment fund. The stated purpose can then allow for an appropriate investment policy. The adopted investment policy does not distinguish between long term funds and excess operating funds.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Prior Year Findings Modified and Repeated

3-6/Endowment Fund (continued)

Recommendation

The District should restate the long term purpose and governance of the endowment fund. From this purpose document the District should then adopt a corresponding investment policy for the endowment fund. This policy should include approving types of investments allowed, tolerance for risk, and possibly providing for the assets to be professionally managed, thereby maximizing potential for higher rates of return. The existing adopted policy may coincide with the long term purpose of the endowment fund.

The District should also ensure that the investment policy adequately address the circumstances surrounding general operating reserves. These investment principles may differ significantly from the endowment fund. We recommend that a consultant direct the establishment of this policy. The consultant should not be an investment manager alternative.

Response

The District recognizes its fiduciary responsibility to maximize returns on funds not needed for current operations. Management has been and will continue working with the New Mexico State Investment Council and will, also, hire an independent investment consultant in order to develop a sound investment policy that promotes and supports the purpose adopted by the Board for the use of these funds.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Prior Year Findings Modified and Repeated

4-1/Personnel Policy - Payroll Transactions

Criteria

The Middle Rio Grande Conservancy District has adopted a personnel policy whose purpose is to establish consistent, basic policies and practices concerning relations with its employees. Certain of these personnel policies were reviewed as part of our audit concerning payroll transactions.

Section 10 Compensation and Benefit Program establishes a compensation plan identifying salary ranges within a salary schedule which are appropriate to the District and comparable to other like employers. Salary increases for normal growth may be granted upon recommendation of department heads and approval of the Chief Engineer. Pay rate changes and approvals are documented with a personnel action form.

Section 11.4.F states that a maximum of thirty working days or two hundred forty hours of annual leave may be carried forward into the beginning of the calendar year. Any unused annual leave in excess of thirty days will be lost on the last day of February of the following year, unless the time period is extended by the approval of the Chief Engineer.

Section 11 defines events and circumstances surrounding authorized leave periods, proper approvals and maintenance and transmittal of leave records.

Condition

Our audit tests included a review of forty payroll disbursements whereby we noted three instances where the rate of employee pay exceeded the maximum pay range for the applicable position grade in the salary schedule. In each instance, the pay rate had been approved through the completion of a properly prepared personnel action form.

We noted 37 employees carried annual leave hours exceeding 240 hours into the 2005 calendar year. Annual leave carried over ranged from 243 hours to 633 hours. In comparison last year, we reviewed annual leave carryover balances and noted that 40 employees carried annual leave hours exceeding 240 hours into the 2004 calendar year. Annual leave carried over ranged from 241 hours to 2,196 hours. The District has approximately 200 employees. At June 30, 2005, the recorded liability for annual leave amounts to \$435,045.

An internal review has identified that authorized leave policies have not been consistently followed in all instances. Approval authority for leave with pay has been provided in a manner not in accordance with District policy. Established internal controls were overridden.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Current Year Findings Modified and Repeated

4-1/Personnel Policy - Payroll Transactions (continued)

Effect

Certain personnel policies and practices as noted above have not been followed in all instances. Circumstances surrounding the annual leave carryover benefit suggest that District objectives regarding such policy may need to be reviewed. Certain employees received authorized leave not in accordance with District policy.

Cause

Certain conditions noted last year have not been addressed. Established internal controls were overridden relating to annual leave.

Recommendation

We recommend that current employee pay rates be compared against the current approved salary schedule. Pay rate amounts not consistent with the salary schedule should be reviewed. We suggest adjusting pay grades for each job description to incorporate the higher levels of pay, especially where only one person actually has that job description. We suggest adjusting the personnel policy such that long-term employees are allowed to exceed the upper limit of the pay range for their job description. Define and document the circumstances under which the overage can occur, and require specific annual approval of the Board of Directors.

The Board of Directors should consider reviewing the District's objectives with respect to the annual leave carryover benefit. The annual leave carryover cap limit should be addressed.

We recommend a review of the internal controls in place that pertain to the facts surrounding the unauthorized leave. Changes, if appropriate should be made.

Response

The District is in the process of hiring a new Human Resource director who will be given the responsibility of comparing current employee pay rates with existing salary schedules. A policy will be adopted to address circumstances that arise when an employee exceeds the upper limits of the salary schedule due to cost of living pay rate increases. A comparison of salary pay rates with other like employers will be initiated by the incumbent Human Resource director.

Management will revisit District policy regarding leave carry over, recognizing that there will be circumstances in which it would be impractical and cause interruption of District services, to enforce the 240 hour carry over rule.

Management does not agree that there was a breach of the authorized leave policy. The incident cited involved a verbal agreement between a staff employee and a supervisor that was entered into without obtaining Chief Engineer and Board approval. Therefore the leave was unauthorized. Management believes there are occasions in which it is not always possible to intervene to prevent overriding of established internal policy and procedure. Management was unaware of this incident, and upon learning of it, appropriately dealt with the situation.

J. Ramirez ↑?

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Current Year Findings

5-1/Payroll and Benefit Transactions in General Ledger

Criteria

The District has established general ledger accounts within the accounting system to track and report payroll and benefit transactions. Accumulated expenditures for payroll and benefits are compared monthly against budgeted amounts.

Condition

Certain payroll liability general ledger accounts are not being reconciled on a monthly basis. As a result, certain payroll and benefit transaction expenditures have been coded to these liability general ledger accounts as opposed to the expenditure accounts used in the budget.

Effect

Monthly reports presenting expenditures for payroll and benefit transactions as compared to budget are incorrect to the extent of these improperly coded transactions.

Cause

Due to the lack of reconciling procedures many payroll transactions have been routinely coded to the wrong general ledger accounts. Routine master file maintenance is common in the payroll area. If the maintenance changes are not verified through reconciliation procedures, errors tend to accumulate.

Recommendation

We recommend that payroll liability general ledger accounts be reconciled on a monthly basis. Proper training will need to occur to correct the ongoing payroll transaction coding problems generated by the regular payroll master file maintenance.

Response

The newly hired Secretary/Treasurer will review payroll reconciliation procedures and be responsible for ensuring correct general ledger coding and timely reconciliation. The Secretary/Treasurer will provide necessary staff training. An accounting assistant will be hired to ensure compliance with this finding.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005


Current Year Findings

5-2/Procurement - Disbursements

Criteria

The District has established procurement policies which comply with State procurement law. The District has established internal control policies and practices concerning vendor disbursements.

Condition

 We noted three instances (amounting to \$7,882) whereby sole source purchases were made with no written determination documentation outlining the good faith review for such purchases. Purchases from ongoing sole source vendors must have an annual determination made. *Hence by no votes*

We noted two instances (amounting to \$12,695) whereby emergency procurement occurred with no written determination documentation as to the basis for the emergency purchase as defined in the procurement policy. One noted sole source purchase and the emergency procurement purchases occurred with the same vendor. *WAS THIS REPORTED TO BOARD*

We noted two credit card charges totaling \$60 not supported by actual receipts. We noted eight credit card meals and entertainment charges totaling \$291 fully supported by payment documentation. *What was this*

We noted the District has not been following the practice of marking paid invoices as paid. *They noted dinner*

During our test of disbursements we noted eight instances where purchase requisitions and the related purchase order were dated after the date on the vendor invoice. *which ones*

Effect

The District has not fully complied with documentation standards applicable to procurement and internal control policies and procedures as noted above. *Hence by no votes*

Cause

Emphasis has not been placed on applicable policy and practice areas.

Recommendation

We recommend as follows:

- (1) The District mark all vendor invoices as paid during the disbursement process.
- (2) The District continues to require supporting receipts on all disbursements.
- (3) The District establish a policy regarding meals and entertainment.
- (4) The District should continue the education and training of employees involved in the procurement process that requisitions and purchase orders are authorized prior to incurring vendor obligations.
- (5) The District should establish a procurement file containing written determinations for all sole source and emergency purchases. With respect to sole source purchases occurring annually determinations should be performed each year.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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5-2/Procurement – Disbursements (continued)

Response

The newly hired Secretary/Treasurer will ensure that the District follows established State procurement procedures as well as internal control policies and procedures. The Secretary/Treasurer will review all purchase requisitions, purchase orders, receiving reports, and invoices prior to payment. When sole source purchases are requested, the Secretary/Treasurer will ensure that good faith reviews are performed and annually documented. Emergency procurements will be reviewed for proper written documentation. The Secretary/Treasurer or his designate will spot check completed purchase packages to ensure that invoices are marked as paid once a check has been issued for payment. Finally, the Secretary/Treasurer will provide, or make provision for, staff training as necessary.

The eight (8) fully documented credit card charges totaling \$291 were for meals provided in the normal and usual course of conducting District business. As such, they were allowable and approved by the Board.

What were they

STATE OF NEW MEXICO
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5-3/Land Sales

Criteria

The District has established a land sale policy which complies with state law.

Section I. A. state these initial requirements for sale:

- (1) Interested party shall submit a Letter of Intention of Purchase to the District.
- (2) Interested party shall be advised that all immediately adjacent property owners will be notified as to the proposed sale of property.
- (3) All immediately adjacent property owners shall be notified as to the proposed sale of property.
- (3) The General Manager/Chief Engineer shall notify the interested party if the land is subject to public auction, if the land lacks public access, and if any adjacent property owners are interested in purchasing the property.

Section III requires applications to purchase District lands to be submitted to the General Manager/Chief Engineer, and shall include (along with a \$250 processing fee):

- A. A short description of the real property involved.
- B. The reason for the proposed purchase of the property.
- C. The reason the Applicant believes the real property is no longer needed by the District.
- D. A minimum price the Applicant proposes to pay for the real property.

Section IV requires the General Manager/Chief Engineer to seek tentative approval of the sale from the Bureau of Reclamation, if such approval is required, and then from the Board of Directors. In addition, no property with the total value in excess of \$5,000 may be sold, or traded, without the approval of the Local Government Division of the Department of Finance and Administration of the State of New Mexico.

According to Section V, it is the policy of the District that all property having an estimated value in excess of \$2,500 require appraisal. The appraisal must consider the highest and best use of the land, not its current condition. If the potential buyer disputes the appraisal, they may, at their expense, have the appraisal reviewed by an Arbitrating Committee made up of three qualified appraisers, including the original appraiser.

According to Section VI., the applicant will notify the General Manager/Chief Engineer of their continued interest, along with payment of a deposit for 10% of the appraised value.

Section VII states that the next step is to notify the Bureau of Reclamation and request it to quitclaim its interest to the District. The District would also notify and/or petition the Conservancy court for abandonment, if required.

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Current Year Findings

5-3/Land Sales (continued)

Section 13-6-2.1, NMSA 1978 requires state board of finance approval for real property sales and trades exceeding \$25,000. The New Mexico Administrative Code section 1.5.23.9 does not allow the sale or transfer of real property to any private entity for less than fair market value.

Condition

Our audit tests of the twelve land sales consummated during the fiscal year noted the following:

1. One piece of property was sold for \$70 less than the appraised value. That value was based upon a second appraisal obtained by the applicant because the applicant thought the District appraisal was too high. There is no documentation as to why the second appraisal was more valid than the first.
2. The proceeds from a sale (a personal check) that concluded in August, 2004, was located in the District safe in November, 2005, 15 months later. The sale was for more than \$5,000 but was not submitted to the Local Government Division of the Department of Finance and Administration for approval. There also was no evidence of an application to purchase the land, a \$250 processing fee, a 10% deposit, or a copy of an appraiser's bill in the amount for which the applicant reimbursed the District. *WHO WAS IT?*
3. One sale was for more than \$25,000 but was not submitted for approval to the State Board of Finance. The buyer obtained a second appraisal because the applicant thought the District appraisal was too high. The final sales price agreed to the second appraisal amount. There is no documentation as to why the second appraisal was more valid than the first. There also was no evidence of an appraiser's bill in the amount for which the applicant reimbursed the District. *who*
4. One sale was for more than \$25,000 but was not submitted for approval to the Board of Finance. The buyer obtained a second appraisal because the applicant thought the District appraisal was too high. There were also two other appraisals in the file, but the final sales price did not match any of the appraised amounts. There is no documentation as to how the final sales price was established. There also was no 10% deposit or evidence of an appraiser's bill in the amount for which the applicant reimbursed the District. *who*
5. For one sale, the appraisal fee of \$740 exceeded the \$600 sales price for the land.
6. One sale for more than \$5,000 was not submitted to the Local Government Division of the Department of Finance and Administration for approval. No documentation could be found supporting the buyer paying for the appraisal fee. *who*
7. For the only land trade, there was no application to purchase (trade) the land, or a \$250 processing fee. There were no appraisals located of either the land given up nor of the land received in the trade. Therefore, there was no way to establish if other approvals were required. *who*
8. For one sale, there was no evidence of an appraiser's bill in the amount for which the applicant reimbursed the District. *who*

There was nothing in any of the land sales files to show that any consideration given to contacting the Bureau of Reclamation concerning quitclaims.

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5-3/Land Sales (continued)

Cause

Personnel involved in oversight of land sales were not trained in adherence to District policy.

Effect

Land sales have not consistently followed District policy.

Recommendation

We recommend that personnel involved in land sales be trained on the existing policy. We recommend a checklist be designed to identify all practices, procedures and required documentation. File notes should include decisions made on judgment. File documentation should be reviewed and approved prior to finalization.

Response

Land sale policy will be reviewed and revised as necessary to comply with this finding. The newly hired Secretary/Treasurer will review both state and District policy and procedures and develop a pre-sale checklist to be followed before each land sale is consummated. Prior to consummation, the Secretary/Treasurer will review all documentation along with the completed checklist and certify that all requirements have been met before submission to chief engineer and final board approval.

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5-4/Bank Account Collateral

Criteria

New Mexico State Statute requires banks to provide collateral for all bank accounts of public funds that exceed the FDIC insurance limit of \$100,000.

Condition

The checking and savings accounts held by Bank of America had no pledged collateral as of June 30, 2005. Required collateral amounted to \$197,209 at June 30, 2005.

Effect

The District is not in compliance with State Statute.

Cause

Bank personnel had flagged the two savings accounts as private as opposed to public accounts. District personnel did not note that the accounts were not collateralized.

Recommendation

The District should arrange to have such funds subject to the proper collateral requirements.

Response

Bank personnel had flagged two District savings accounts as being private rather than public, and in so doing had not properly provided for state mandated collateralization. District oversight, due to turnover of key personnel, allowed this to occur from June 2005 through September 2005. The oversight was corrected in October 2005. The District considers this finding to be resolved.

Big Issue

STATE OF NEW MEXICO
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5-5/Inventory Valuation

Criteria

Inventories of supplies and materials are significant assets of the District. As of June 30, 2005 inventory was valued at \$628,919. The District is constantly purchasing new items and consuming existing items in field operations.

Policies and procedures established should adequately provide control over and financially report activity relating to inventories.

Control procedures of significance include –

- (1) Safeguard against loss and theft thru controlled access given to authorized personnel.
- (2) Assign custody to specific individuals.
- (3) Inventory consumption through approved written requisitions.
- (4) Use of prenumbered receiving reports.
- (5) Usage of perpetual inventory records which are balanced to physical inventories. Differences are investigated.
- (6) Physical inventory counts are properly priced, extended and summarized for financial reporting purposes.

Condition

An annual physical year end inventory was taken as of June 30, 2005. The provided extended inventory list for financial reporting purposes did not agree to the actual physical counts taken. No financial review had been performed on this report. Numerous pricing and count errors existed. The year end compilation procedures had to be redone five months after the fact to value inventory for financial statement purposes. Computerized reports for comparison of perpetual records against physical year end counts and noted differences had no indication of follow up.

We selected a judgmental sample of inventory items from each location. From this sample we attempted to reconcile quantities on hand at beginning of year plus current purchases and transfers less current year uses and transfers to end of year counts. A number of the sample items did not reconcile indicating differences. Follow up indicates that computer and human error could influence the differences arising from receipts and issuances of inventory items. Some differences could not be explained.

Effect

The absence of operating oversight controls could lead to unauthorized usage of inventory and improperly reported inventory dollar amounts.

Cause

Over time the operating effectiveness of oversight mechanisms has deteriorated. The existing computer program capabilities significantly impact the ability to use the computer program to monitor perpetual and actual physical counts.

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5-5/Inventory Valuation (continued)

Recommendation

We recommend the District reemphasize oversight inventory controls. We suggest additional research be performed on existing practices to identify the cause or causes of these inventory count differences. We suggest ongoing inventory spot counts to verify that existing practices accurately track increases and usages of inventory. Year end inventories should be timely analyzed for proper year end valuation.

Response

A newly hired Secretary/Treasurer will review and evaluate existing inventory procedures to identify pricing and count errors causing an unacceptable variation between actual physical counts and perpetual inventory records. Unannounced spot counts will be taken and compared against computer generated records. The existing computer system will be evaluated to determine capabilities and possible program shortcomings. In addition, the District is installing a new computer system during fiscal year 2006, which will better track inventory. The Secretary/Treasurer will ensure proper staff training in its usage.

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5-6/Compilation of Vouchers Payable and Encumbrances

Criteria

The District budgets on a financial basis which includes the consideration of vouchers payable (amounts due vendors for goods and services delivered by period end) and encumbrances (contracts and purchase orders for which goods and services have not been delivered by period end). Periodic or annual reporting to the Board comparing actual expenditure amounts to budgeted amounts should consider these items.

Condition

It was noted at year end and during the course of the year that the District had not reconciled the vouchers payable and encumbrance general ledger accounts. During the course of the year the incorrect balances in these accounts would have impacted any financial reporting comparing actual to budgeted expenditures. Significant efforts were necessary to identify the necessary corrections to these accounts. At year end vouchers payable approximate \$1 million and encumbrances approximate \$104,000. *what?*

Effect

The lack of reconciling procedures will have impacted the accuracy of periodic financial reporting.

Cause

Reconciling procedures were not performed.

Recommendation

We recommend practices be implemented monthly to track the general ledger accounts vouchers payable and encumbrances. The accounts payable position and the purchasing position should be trained to reconcile vouchers payable and encumbrances within the general ledger to proper period end listings.

Response

The newly hired Secretary/Treasurer will implement procedures to ensure month-end reconciliation of vouchers payable and encumbrances to the general ledger. In addition, the Secretary/Treasurer will provide the necessary oversight and staff training as needed. An accounting assistant will be hired to assist in compliance with this finding.

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Current Year Findings

5-7/ Infrastructure Assets Policies and Procedures

Criteria

GASB statement no. 34 applies prospectively to all general infrastructure assets constructed or significantly improved since the July 1, 2002 implementation date. In addition, the statement requires that retroactive reporting is required for all major general infrastructure assets by June 30, 2007 for assets constructed or significantly improved since July 1, 1980 through June 30, 2002.

Formalized policies and procedures should govern financial reporting practices relating to capital assets. Written documents on policies and procedures should govern future financial reporting practices on a day to day basis and year end close out accounting requirements.

Condition

The financial reporting guidelines of GASB #34 has required the District to value and account for infrastructure assets under its ownership/responsibility for proper presentation in their financial statements. During our review of the Water 2025 grant, we became aware that the District had incurred significant internal costs amounting to \$539,770 in fiscal years ending June 30, 2004 and 2005 relating to the construction of irrigation structures to improve operation, management and use of water supplies. Those internal costs had not been considered when reporting on the Districts' annual capital outlay additions. It was necessary to research, analyze, quantify and document these activities for preparation of the accompanying financial statements.

Effect

The lack of existing polices and practices allowed for the situation of not including in the financial statements major costs relating to infrastructure construction or improvement.

Cause

Internal policies and practices regarding infrastructure accounting do not exist.

Recommendation

We recommend the District prepare written policies and procedures to account for infrastructure assets. The process documented should integrate the field operations with the accounting general ledger system. Policies and procedures should include the following topics:

- Project capitalization criteria
- Project numbering/identification *
- Tracking – projects in process including planning and construction
- Value/costing documentation
- Cost accumulation by project
- Interaction with general ledger
- Required accounting journal entries

Very Important

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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Current Year Findings

5-7/ Infrastructure Assets Policies and Procedures (continued)

Response

The newly hired Secretary/Treasurer will acquire the necessary training and knowledge to create an Infrastructure policy that meets GASB 34 requirements.

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MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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5-8/Financial Oversight

Criteria

The District should have an accurate knowledge of its financial condition throughout the year. The Financial arm of the District should have adequate resources to properly address ongoing financial issues.

The budget for the District for the 2004-2005 year had positions for a secretary, treasurer, accountant and an accounting assistant. The budget for the 2005-2006 year has positions for a secretary, financial officer and an accounting assistant. Some of these positions have been vacant for extended periods of time.

Condition

when *was dis. hired*
Once the finance officer/acting treasurer ~~terminated employment~~ in September, 2005 the financial reporting function of the District virtually stopped. The District had minimal ability to step in and perform oversight functions. The vacancy severely impacted the annual audit in terms of time and cost. The turnover in the treasurer/finance officer positions and within some of the other clerical accounting slots have placed a strain on the effectiveness of financial oversight function. Experience, history and knowledge is not easily duplicated. The combination of these and other factors have impacted the audit scope and findings of the annual audit.

Effect

Ongoing financial issues have not always been addressed timely.

Cause

The cumulative turnover of accounting personnel and position vacancies have impacted the District.

Recommendation

We recommend that the District fully staff the financial arm of the District with adequate resources. The idea would be to have a system in place that operates during times of employee turnover. The staffing in the financial arm of the District should have short and long term goals with accountable expectations.

Response

A new Secretary/Treasurer has been hired to provide the necessary financial oversight, reporting, and training. To provide additional stability to the District financial responsibilities, the Secretary/Treasurer has begun recruiting for a full time professional accounting assistant.

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Current Year Findings

5-9/ Audit Report Due Date

Criteria

The New Mexico Office of the State Auditor rule number 2.2.2.9 A (1) requires that audit reports of special districts be delivered to the State Auditors Office no later than December 1.

Condition

The District did not deliver its annual audit report to the Office of the State Auditor until after that date.

Effect

The District is not in compliance with the audit rule of the Office of the State Auditor.

Cause

Employee turnover and increase of audit scope has caused a delay in the completion of the annual audit.

Recommendation

We recommend the District in future years address accounting and audit issues as early as possible.

Response

Factors contributing to the District's delayed audit report included the resignation of the District's Treasurer, reliance on the knowledge and expertise of the Treasurer to provide the necessary client prepared schedules and materials to facilitate the audit process, turnover of two incumbent Secretary/Treasurer's, and additional audit scope requests the District had not planned on.

FIRING OF the former financial officer

STATE OF NEW MEXICO
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Current Year Findings

5-10/ Internal Work Order Cost Reporting System

Criteria

The District has an existing agreement dated in September, 2004, with the United States of America, acting by the Secretary of the Interior, providing for the development and implementation of an annual work plan and for payment to the District for operation, maintenance and betterment work for newly reclaimed Pueblo Indian lands. That contract extends through September 30, 2009. This contract calls for annual payments of \$450,000 from 2002 to 2004 and increases to \$1,200,000 in 2005 and then conforms to an average cost of service per acre, thereafter.

Prior to this agreement, the District operated under a memorandum of understanding for the calendar years 2000 and 2001, and a previous contract that covered a term from 1990 to 1999. The annual contract amounts for these arrangements ranged from \$183,000 to \$345,000.

During the periods covered above, the District has always had to justify the annual contract amount with an annual accounting of work performed directly on Pueblo lands.

Condition

The annual contractual amounts pursuant to above time periods have been in a range that has seen CPI type increases until the year 2005, at which time the contractual amount could increase from \$450,000 to \$1,200,000. This is a culmination of years of negotiation to get the contract to approximate actual cost of service. In the year 2005, the cost of service will more closely track to the contract amount. The internal work order cost reporting system will be the mechanism by which the District will justify the annual contract amount. Such amounts will be supported by an approved per acre cost formula.

In our review of the procedures used in the internal work order cost reporting system we noted that labor costs and equipment charges are based on hourly bill rates and actual hours incurred. Our review of the hourly rates indicates that the District has used a general rate schedule that was based on estimated actual costs.

Since contractual amounts have increased it would be appropriate that the general bill rate schedules for labor and equipment be updated for a current cost analysis and the schedule be expended to cover additional rate categories which recognize different levels of wages and specifics of field operation equipment.

Effect

A timely review of general bill rate schedules will alleviate any problems when the annual contract amount is justified.

Cause

Since the contractual amounts will approximate actual costs of service it will be necessary to be as accurate as possible in accumulating cost information for work performed on Pueblo lands.

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5-10/ Internal Work Order Cost Reporting System (continued)

Recommendation

We recommend that an internal cost study be conducted on the general bill rate schedules used in the internal work order cost reporting system. We recommend that the District perform an analysis as to the cost reporting requirements of the 2005 contract amount.

Response

The District will review the current work order system and billing rates. The District will make the necessary adjustments to ensure appropriate and accurate accumulation of cost information.

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Current Year Findings

5-11/ Cell Phone Usage

Condition

The District is heavily reliant on a communication system between field personnel to supervisory personnel to upper management and at all levels with the public. To accommodate this communication the District has provided certain field and administrative management personnel and all Ditchriders with cell phones on a year round basis. In addition, certain employees are reimbursed for their District business use of a personal phone on a monthly basis. All Ditchriders during the irrigation season are reimbursed a monthly \$17.50 for business use of their home phone.

During the year ended June 30, 2005, the District had three separate cell phone plans. One for the Chief Engineer, (later rolled into the All Tel plan) one for the Albuquerque and Cochiti divisions (All Tel plan) and one for the Belen and Socorro divisions (T-Mobile plan). The general nature of the plans allowed for pooled minutes whereby there is a base monthly charge for the average usage of 1,000 minutes per cell phone. Overall plan usage exceeding the plan base then generate additional charges on a per minute basis. In certain circumstances roaming charges have been charged.

Each cell phone plan provides an itemized listing of phone usage by cell phone user by telephone number called with the monthly bill. A detailed review of these listing notes that monthly minute usage by cell phone ranged from 50 minutes to 5,000 minutes. An analysis of individual phone usage listings indicate instances of significant personal phone activity among all levels of phone users. This analysis noted a number of long distance phone calls. Thus, in months that plan overages were billed to and paid for by the District, the level of personal phone usage contributed to these excess charges. In addition, certain personal calls may have triggered roaming charges.

Criteria

Section 12.5 of the personnel policy states that employees will not use District property, records, or equipment for personal use.

IRS fringe benefit reporting requirements have the fair market value of personal use of employer property being placed on the employees annual W-2.

IRS reporting requirements for employer paid allowances has the amount paid being classified as additional compensation (W-2 reporting required) when the employee is not required to account for the business use of the funds.

Effect

The District is not in compliance with W-2 reporting rules relating to all phone reimbursements made to District employees. The District has not accounted for the personal usage of District provided cell phones on W-2 reporting.

Personal usage of District provided cell phones has caused the District to pay for unnecessary cell phone costs in excess of the plan base charges.

Personal usage of District provided cell phones could be causing the District to be paying for a group plan in excess of what is necessary for ordinary business needs.

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Current Year Findings

5-11/ Cell Phone Usage (continued)

Cause

The District cell phone practice has developed without a District imposed policy.

Recommendation

We suggest the following regarding phone usage.

1. Determine the cell phone users whom have subjected the District to additional phone charges. Seek reimbursement from those employees.
2. Include phone reimbursement payments to employees on their annual W-2 or separate 1099.
3. Develop a Board policy on cell phone usage. Consider the proper IRS reporting for personal cell phone usage.

Response

The District will review cell phone usage and establish a Board policy that complies with IRS and W-2 reporting requirements. The District will monitor, on a monthly basis, individual cell phone usage and investigate and take appropriate actions where necessary.

IMPERATIVE TO HAVE CELL POLICY

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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Current Year Findings

5-12/ Grant Compliance

Condition

The District was provided with a \$50,000 grant from the New Mexico Department of Agriculture for a study for the use of goats as a tool to control salt cedar and other invasive weeds in the Rio Grande Valley State Park. The grant term extended to May 31, 2005.

The District has received the \$50,000 and documented grant expenditures amounting to \$42,314. The balance of the grant budget was attributable to a vendor whom has not completely performed or billed for their services. Efforts to resolve the situation with the vendor has been unsuccessful.

Criteria

The District has signed a grant agreement outlining conditions for an identified project with fiscal implications.

Effect

The District has not completely complied with the grant agreement.

Cause

The District has not been able to enforce performance by a vendor on the project.

Recommendation

The District should follow up with the grantor as to the resolution of this issue. The return of the unspent funds of \$7,686 to the grantor may be appropriate.

Response

The District has requested vendor resolution to this finding. The vendor has agreed to provide supporting documentation and invoicing confirming project completion before grant termination. Once documentation is received, the District will consider this finding as resolved.

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5-13/ Damage Deposits

Condition

Instances occur whereby property owners obtain District permits for construction projects which impact District property. These permits generally require a \$2,500 damage deposit. Upon completion of the project according to District specifications, the damage deposit is refundable to the permit holder.

The District accounts for the receipt and return of these damage deposits in a separate general ledger account. At June 30, 2005, the ledger reflects \$137,500 held on behalf of permit holders. A detailed review of the activity within this ledger account notes that approximately \$75,000 of deposits are refundable to permit holders.

The engineering department and the accounting department have not provided the proper oversight of these deposits to ensure a timely resolution on the permit. Periodic reconciliation and follow up has not been occurring on this account.

Criteria

The District should periodically close out permits which have expired.

Effect

The District is needlessly holding third party funds.

Cause

Periodic oversight of the accounting for permits has not been occurring.

Recommendation

Monthly listings of deposit ledger activity should be provided to the engineering department for oversight and follow up. Closed deposits should be refunded to permit holders.

Response

The engineering department is reviewing the identified accounts to ensure that refunds are appropriate. If deemed appropriate, the property owners will be contacted and reimbursed.

STATE OF NEW MEXICO
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5-14/ Internal Audit

Condition

Governments have a fiduciary responsibility to their constituents. Government must on an on going basis ensure that government resources are used for proper government purposes. It is not uncommon for allegations or comments to be made which question actions or fact patterns. Board members have alleged improper or illegal activities by other board members and management. These instances may have merit or may not have merit.

Criteria

Each government as a normal course of business must be sensitive to this issue and put in place policies and procedures which act as a check and balance system. The design of such a system must recognize the dollar costs of implementing such a system and the expected benefit. This process should be independent.

Effect

To ensure that government acts in a manner responsive to its purpose.

Cause

Exchanges of allegations amongst board members have impacted District governance. Many allegations of abuse of District policies and assets have occurred.

Recommendation

We recommend the District consider the feasibility of an internal audit function that allows prompt investigation and resolution of allegations leveled at the District.

Response

Management agrees that broad unsupported allegations of wrongdoing cause injury to the District. The District has been in the process of preparing a code of ethical conduct for board members with specific sanctions for violations including sanctions for making wholly unsupported allegations. In addition, the Board intends to establish an internal audit mechanism that promptly evaluates any allegations of wrongdoing and provides an objective and fair analysis of the claims and a report to the Board that is unbiased in every respect and resolves the matter completely.

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5-15/ District Response to Information Request

Condition

The Chief Engineer of the District in responding to a request for voter information provided a communication which may not have been in accordance with District policy. Language within the communication could be viewed as political activity.

Criteria

The District personnel policy prohibits political activities.

Effect

District policy may not have been adhered to.

Cause

The information communication as presented was not appropriate.

Recommendation

District policies should be adhered to.

Response

The allegations of political conduct are outside the general scope of a financial audit; however, political activity will not be tolerated by any board member or other personnel in violation of existing policy.

Well what is the
punishment

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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Current Year Findings

5-16/ Monitoring of Fuel Usage

Condition

The District has reported gasoline and diesel expenditures of \$461,000 in 2005 and \$326,000 in 2004. Price increases have impacted fuel costs in 2005 versus 2004. The District does not have in place a system of controls which timely monitor fuel usage/consumption and presents data in a reportable format. Given the volume of fuel purchases, it is not uncommon to have missing gas receipts and gas receipts which have incorrect odometer readings. The existing computer system does not have sufficient reporting capabilities for captured data. Given trends in gas prices, operating decisions need to be made on vehicle fuel efficiencies as well as control aspects.

Criteria

The nature and volume of gasoline consumption gives rise to the inherent risk of usage abuse. Management is operating in an environment of increased fuel prices. Management is responsible for implementing control practices and procedures to manage these risks.

Effect

The District does not have the ability to report captured data relating to fuel usage without special efforts.

Cause

Emphasis has not been placed on a system of controls concerning fuel usage.

Recommendation

We recommend the District define what data would be relevant in monitoring fuel usage. We then suggest that the procedures necessary to capture the data be identified and applicable reports should be implemented. The cost/benefit relationship will be a consideration.

Response

The newly hired Secretary/Treasurer will work with division managers to capture and report relevant monitoring data to include tracking fuel purchase tickets; management authorization of fuel purchase; signatures of fuel purchasers; identification of the unit being refueled; odometer readings; date and time of purchase; and miler per gallon determinations. Fuel tickets will be matched against vendor invoices. In addition, monthly division fuel actual purchases will be compared to monthly budgeted fuel purchases and variances greater than or less than ten percent will require division manager written justification.

STATE OF NEW MEXICO
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5-17/ Board Policies

Condition

A board member has obtained access to District Water Bank contract information through a means other than as described in Rule 22 as identified below. Such information exceeds the usual requests of individual members of the public and would have been required to be requested through the Chief Engineer or through specific action of the board.

A board member on a number of occasions has contacted various levels of District employees during working hours in a manner not consistent with board policy as noted below. No notification had been given allowing senior staff to be present during such communications.

Criteria

The Board of Directors has adopted Rule #22 which:

1. Establishes rules and procedures governing disclosure of information to individual board members
2. Establishes policy regarding board member contact with District employees/staff during working hours

The first policy provides guidance when board member requests for information exceeds the usual requests of individual members of the public. All non-confidential records of the District shall be made available to individual board members upon requests through the Chief Engineer who will make every effort to promptly comply with the request. Records designated as confidential under New Mexico law are not to be disclosed to any individual board member without specific action of the board. Any such records shall be marked "confidential" prior to disclosure in order that the board or any individual member will know such records are not for public dissemination.

The second policy states that individual board members not meet with employees of the District during working hours without prior notification to the Chief Engineer or his designee. The senior management staff shall have the opportunity to be present at all such meeting and that individual board members not be present in the office of the District without prior notification to the Chief Engineer, or his designee, except during scheduled meetings of the Board of Directors.

Effect

Adopted Board policies regarding information requests and board member interactions with District employees have not been followed.

Cause

Board member actions have not followed policy.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
AUDIT FINDINGS
JUNE 30, 2005

Current Year Findings

5-17/ Board Policies (continued)

Recommendation

Board policies as adopted should be followed. If policies as adopted are no longer appropriate board action should revise policy.

Response

The Board Chair will take appropriate action to ensure that Board policy is enforced as required under Rule #22.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
EXIT CONFERENCE
JUNE 30, 2005

An exit conference was held on January 6, 2006. Attending were:

Middle Rio Grande Conservancy District

Jose Otero, Chairman

James C. Roberts, Board Member

Augusta Meyers, Board Member

Subhas Shah, Chief Executive Officer

Jeanette Bustamante, Administrative Officer

Steven Houser, Secretary/Treasurer

Ronnie Herbst, Interim Contract Accountant

Mackie, Reid & Company

Jim Van Der Geest, C.P.A.

Financial Statement Preparation

The Middle Rio Grande Conservancy District contracts with an outside independent public accountant to prepare the financial statements.