

State of New Mexico
OFFICE OF THE STATE AUDITOR

STATE OF NEW MEXICO

CABALLO

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005

(With Independent Auditor's Report Thereon)



Domingo P. Martinez, CGFM
State Auditor

copy

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

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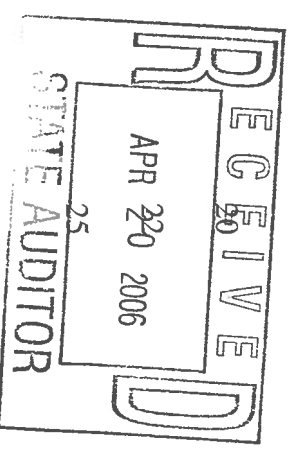
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STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Hector Mendoza	Chairperson
Harvey Morrow	Vice-Chairperson
Pat Emery	Secretary/Treasurer
Dickie Ogaz	Supervisor
Allen Beck	Supervisor
Joe Paul Lack	Supervisor
Bruce Redd	Supervisor

<u>District Personnel</u>	<u>Title</u>
Merry Jo Fahl	District Manager



State of New Mexico OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Hector Mendoza, Chairperson
and Members of the Board of Supervisors
Caballo Soil and Water Conservation District
2101 South Broadway
Truth or Consequences, New Mexico 87901

We have audited the accompanying financial statements of the governmental activities, each major fund, and the respective budgetary comparisons of the major funds of the Caballo Soil and Water Conservation District (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.

In our opinion, 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 District as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparisons for the major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis required by *GASB Statement No. 34* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 13, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR
March 13, 2006

STATE OF NEW MEXICO
 CABALLO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

	Governmental Activities
Assets	
Cash	\$ 133,628
Interest receivable	2,599
Accounts receivable - loans from ranchers	154,446
Accounts receivable - Sierra SWCD	2,566
Capital assets, net	756
Total assets	293,995
Liabilities	
Accounts payable	226
Accrued interest on loan	2,259
Noncurrent liabilities	
Due within one year	7,256
Due in more than one year	155,176
Total liabilities	164,917
Net Assets	
Invested in capital assets, net of related debt	756
Unrestricted	128,322
Total net assets	\$ 129,078

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 CABALLO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	
Office supplies	355
Dues and subscriptions	1,150
Awards and presentations	103
Conservation Education	50
Meetings	383
Per diem and mileage	867
Bonding	169
Conservation projects	28,933
Watershed administration	648
Boundary modification	282
Contractual services	1,260
Miscellaneous	13
Depreciation	756
Interest	4,134
Total program expenses	39,103
Program Revenues:	
Charges for services	6,554
Miscellaneous	14
Total program revenues	6,568
Net program (expense) revenue	(32,535)
General Revenues:	
NMDA allotment	8,797
Property taxes	1,302
Interest	727
Total general revenues	10,826
Change in net assets	(21,709)
Net assets at beginning of year	150,787
Net assets at end of year	\$ 129,078

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 CABALLO SOIL AND WATER CONSERVATION DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2005

Exhibit 3

	General Fund	Special Revenue Funds		Total
		Major Fund Interstate Stream Fund	Major Fund Watershed Fund	
Assets				
Cash	\$ 53,491	\$ 57,150	\$ 22,987	\$ 133,628
Interest receivable	-	2,599	-	2,599
Accounts receivable - ranchers	-	154,446	-	154,446
Accounts receivable - Sierra SWCD	-	2,566	-	2,566
Due from general fund	-	-	390	390
Total assets	<u>\$ 53,491</u>	<u>\$ 216,761</u>	<u>\$ 23,377</u>	<u>\$ 293,629</u>
Liabilities and fund balance				
Liabilities:				
Accounts payable	226	-	-	226
Note payable to ISC	-	-	-	-
Accrued interest payable on ISC loans	-	-	-	-
Due to watershed fund	390	-	-	390
Total liabilities	<u>616</u>	<u>-</u>	<u>-</u>	<u>616</u>
Fund balance:				
Reserved for NMISC loans	-	162,432	-	162,432
Reserved for dams and watershed	-	-	23,377	-
Unreserved, designated for subsequent year's expenditures	-	54,329	-	54,329
Unreserved, undesignated	52,875	-	-	52,875
Total fund balance	<u>52,875</u>	<u>216,761</u>	<u>23,377</u>	<u>293,013</u>
Total liabilities and fund balance	<u>\$ 53,491</u>	<u>\$ 216,761</u>	<u>\$ 23,377</u>	<u>\$ 293,629</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Amounts reported for governmental activities in the Statement of Net Assets are different from the way they are reported in the Balance Sheet - Governmental Funds as follows:

Fund Balance - Balance Sheet (Exhibit 3)	\$ 293,013
Capital assets, net of accumulated depreciation	756
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Accrued interest on notes	(2,259)
Notes payable	(162,432)
Compensated absences	-
Net Assets - Statement of Net Assets (Exhibit 1)	<u>\$ 129,078</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 CABALLO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 4

	Special Revenue Funds				Total
	Major Fund	Major Fund	Major Fund	Major Fund	
	Interstate	Watershed	Stream Fund	Fund	
Revenues					
State allocation	\$ 8,797	\$ -	\$ -	\$ -	\$ 8,797
Property taxes	-	-	-	1,302	1,302
Interest	522	6,686	-	73	7,281
Miscellaneous income	15	-	-	-	15
Total revenues	9,334	6,686	1,375	-	17,395
Expenditures					
Conservation:					
Current:					
Office supplies	353				353
Dues and subscriptions	1,150				1,150
Awards and presentations	103				103
Conservation Education	50				50
Meetings	383				383
Per diem and mileage	867				867
Bonding	169				169
Conservation projects	28,933				28,933
Watershed administration	-	648			648
Boundary modification	283				283
Contractual services	1,260				1,260
Miscellaneous	-	-		14	14
Debt Service - ISC loan	-	-		-	-
Principal payments	-	31,583		-	31,583
Interest	-	5,329		-	5,329
Total expenditures	33,551	37,560	14	-	71,125
Net change in fund balances	(24,217)	(30,874)	1,361	-	(53,730)
Fund balance beginning of year	77,092	247,635	22,016	-	346,743
Fund balance end of year	\$ 52,875	\$ 216,761	\$ 23,377	\$ -	\$ 293,013

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
 CABALLO SOIL AND WATER CONSERVATION DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2005

Net change in fund balance - Governmental Funds (Exhibit 4) \$ (53,730)

Amounts reported in the Statement of Activities are different because:

Accrued interest payable, June 30, 2004	3,454
Accrued interest payable, June 30, 2005	(2,259)

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. However, in the governmental funds, expenditures for these items are measured by the amount of financial resources used (actually paid). The increase for the liability not recorded in the balance sheet is:

-

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful life of the asset and reported as depreciation expense as follows:

Capital outlay	-
Depreciation expense	(756)
Amount rounded	(1)

Repayment of principal on long-term debt (note payable) is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount repaid in the current year:

Principal paid on NMISC loan	31,583
New Loan from NMISC	-

Change in net assets - Statement of Activities (Exhibit 2)	\$ (21,709)
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The notes to the financial statements are an integral part of this statement.



Watershed Fund				
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
\$ -	\$ -	\$ -	\$ -	-
700	700	1,302	602	-
-	-	-	-	-
-	-	-	-	-
200	200	73	(127)	-
900	900	1,375	475	-
<u>\$ 900</u>	<u>\$ 900</u>	<u>\$ 1,375</u>	<u>\$ 475</u>	
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
500	500	-	500	-
200	200	14	186	-
<u>\$ 700</u>	<u>\$ 700</u>	<u>\$ 14</u>	<u>\$ 686</u>	

The notes to the financial statements are an integral part of the statement.

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Caballo Soil and Water Conservation District (District) is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-49 NMSA 1978). The District is a governmental subdivision of the state, a public body corporate and politic, organized for control and prevention of flood, sediment, and soil erosion damage, and to further the conservation, development and beneficial use of water and soil resources. The governing body of the District consists of five elected supervisors, four of whom must be landowners in the District. Two additional supervisors may be appointed to the District board. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

A primary government is any state government or general-purpose local government and the organizations comprising its legal entity. Although the District is organized as a subdivision of the State and administratively attached to the New Mexico State University, Department of Agriculture, the statutory powers of the District establish it as a primary government with a separate corporate and legal identity. The District has no component units, financially dependent affiliates, nor is it legally liable for actions of other agencies.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District, a phase three government, was required to implement GASB Statement 34 is required to implement GASB Statement No. 40, *Deposit and Investment Risk Disclosures* in fiscal year 2005. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities,

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

which rely to a significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. There are two major, special revenue funds: the Interstate Stream fund and the Watershed fund. The District has elected to present the Watershed fund as a major fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The special revenue funds are utilized to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District had two special revenue funds, one was set up to account for the District's Low Interest Loan Program. The District receives low interest loans from the New Mexico Interstate Stream Commission (NMISC) to lend landowners in the District funds at low interest rates to projects to conserve irrigation water on their property. The second special revenue funds is to account for the operation and maintenance of nineteen nearby dams and two watersheds and to assess and account for a special mill levy used for the operations and maintenance.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity, if applicable, has been eliminated from the government-wide financial statements.

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

C. Assets, Liabilities, Net Assets and Fund Balance

1. Cash

The District's cash are considered to be demand deposits and savings accounts.

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. All amounts are expected to be repaid within one year.

With funds received from the New Mexico Interstate Stream Commission, Caballo has made low interest loans to ranchers within the boundaries of the District to promote soil conservation. As of June 30, 2005, there are loans with balances of \$2,137 to \$40,000. The total loan receivable balance is \$154,446 with accrued interest receivable of \$2,599.

There is also a receivable of \$2,566 for a bill paid by Caballo on behalf of the Sierra Soil and Water Conservation District.

Property taxes attach an enforceable lien as of January 1. Taxes are payable in equal semi-annual installments on November 10 and April 10 of the subsequent year. The taxes become delinquent thirty days after the due date. The taxes are collected by the Sierra County Treasurer and are remitted to the District in the month following collection.

The District's accounts payable represent routine monthly bills for service rendered and products purchased which are paid in the following month.

3. Restricted Assets

NMISC loan proceeds and the mil levy, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable loan agreements.

4. Capital Assets

Capital assets, which include property, equipment (including software), and (list other items as applicable) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by state law as assets with an initial cost of \$1,000 and an estimated useful life of more than one year. The total amounts spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized. The District does not

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

have any infrastructure assets. There was no infrastructure required to be capitalized and depreciated under GASB Statement No. 34.

Property and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Computer equipment/software 3 years

II. Stewardship, Compliance and Accountability

A. Budgetary Information

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the approved budget.

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. Encumbrance accounting is not utilized by the District.

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

B. Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial Statements

Because the budget is prepared on a legal compliance basis which differs from generally accepted accounting principles (GAAP), there are differences in amounts reported as follows:

	General Fund	Interstate Stream Fund	Water- shed Fund	Total- All Funds
Non-GAAP revenues (Exhibit 5)	\$ 9,334	\$ 50,820	\$ 1,375	\$ 61,529
Loan proceeds	-	-	-	-
Less prior year receivables	-	(2,633)	-	(2,633)
Current year receivables	-	2,599	-	2,599
Reclassify loan payments received	-	(44,100)	-	(44,100)
GAAP revenues (Exhibit 4)	<u>\$ 9,334</u>	<u>\$ 6,686</u>	<u>\$ 1,375</u>	<u>\$ 17,395</u>
Non-GAAP expenditures (Exhibit 5)	\$ 33,325	\$ 80,125	\$ 14	\$ 113,464
New loan distribution	-	(40,000)	-	(40,000)
Current year accounts payable	226	-	-	226
Loan payments	-	16,672	-	16,672
Interest payments on loans	-	5,329	-	5,329
ISC contingency payment	-	(24,566)	-	(24,566)
GAAP expenditures (Exhibit 4)	<u>\$ 33,551</u>	<u>\$ 37,560</u>	<u>\$ 14</u>	<u>\$ 71,125</u>

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2005, the District had a carrying amount of deposits of \$133,628. Bank balances for deposits were \$140,038. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$6,410. The total bank balance of \$140,038 consisted of the following:

<u>Bank of the Southwest</u>	
Demand deposits	\$ 120,070
Less: FDIC coverage	(100,000)
Amount uninsured	<u>\$ 20,070</u>
50% collateral requirement	\$ 10,035
Pledged securities at fair market value	35,000
Over (Under) Collateralized	<u>\$ 24,965</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in that in the event of bank failure certain cash balances which are uninsured could be lost. The District does not have a deposit policy for custodial credit risk. None of the District's deposits are subject to custodial credit risk.

The following is a description of the pledged collateral that is held under joint safekeeping receipts in the name of the District at the Federal Home Loan Bank of Dallas: Federal Home Lending Bank 3.5 09/06 Callable CUSIP #3133XAY76 and a maturity date of 9/15/2006. Market value was \$34,977 at June 30, 2005.

The District has \$19,968 invested with the NM State Treasurer's Local Government Investment Pool. The investments are valued at fair value based on quoted market prices as of the valuation date.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the

STATE OF NEW MEXICO
 CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2005

short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of 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, NMSA 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 fund amounts were invested. Participation in the local government investment pool is voluntary.

C. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance	Additions	Deletions	Balance
<u>Description</u>	<u>30-Jun-04</u>	<u> </u>	<u> </u>	<u>30-Jun-05</u>
Governmental activities:				
Computer Equipment	\$ 2,268	\$ -	\$ -	\$ 2,268
Accumulated depreciation	<u>756</u>	<u>756</u>	<u>-</u>	<u>1,512</u>
Capital assets, net	<u>\$ 1,512</u>	<u>\$ (756)</u>	<u>\$ -</u>	<u>\$ 756</u>

Depreciation expense for FY 2005 was \$756 which was charged to the governmental function of conservation.

C. Note Payable

The District entered into multiple loan agreements with the New Mexico Interstate Stream Commission (ISC). The purpose of the loans were to provide low interest loans to local ranchers for conservation projects. The debt service requirements to maturity at June 30, 2005, are as follows:

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Year Ending	Principal	Interest	Total
6/30/2006	\$ 7,256	\$ 4,611	\$ 11,867
6/30/2007	7,988	3,879	11,867
6/30/2008	8,187	3,680	11,867
6/30/2009	8,392	3,475	11,867
6/30/2010	8,602	3,265	11,867
Five years ending 6/30/2015	46,346	12,989	59,335
Five years ending 6/30/2020	52,433	6,902	59,335
Three years ending 6/30/2023	23,228	889	24,117
Total	<u>\$ 162,432</u>	<u>\$ 39,690</u>	<u>\$ 202,122</u>

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2005 was as follows:

	Balance 6/30/04	Increases	Decreases	Balance 6/30/05	Amount due within 1 year
NMISC					
Loan Payable	<u>\$194,015</u>	-	<u>31,583</u>	<u>\$162,432</u>	<u>\$7,256</u>

The District did not have any short term debt activity in fiscal year 2005.

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,000,000 for each wrongful act and \$1,000,000 for the policy aggregated. The District is required to obtain a corporate surety bond on behalf of persons responsible for District assets. The District currently maintains a \$45,000 surety bond as well as commercial property coverage. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

B. Related Party Transactions

Two members of the Board of Supervisors have outstanding loans with the District's Interstate Stream Commission Loan Program.

One member of the board borrowed a total of \$85,000 via two separate promissory notes that were approved prior to the beginning of the current year. One of the loans was made to the board member himself and one to a corporation of which he is the principal. The total loan receivable balance outstanding as of June 30, 2005 was \$27,590. Both loans were for a period of ten years with interest rate of 5.5% and 4% per annum respectively.

The other board member's loans were approved in the amount of \$20,000 and \$13,000 in prior fiscal years at the rate of 4.0% per annum for a period of ten years. The total loan receivable balance outstanding as of June 30, 2005 was \$18,493.



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Hector Mendoza, Chairperson
and Members of the Board of Supervisors
Caballo Soil and Water Conservation District
2101 South Broadway
Truth or Consequences, New Mexico 87901

We have audited the accompanying financial statements of the governmental activities, each major fund, and the respective budgetary comparisons of the Caballo Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated March 13, 2006. 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 District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and recommendations as item 05-1.

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

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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. However, the reportable condition described above is not considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as item 03-2.

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico State University - Department of Agriculture, the state legislature and grantors and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR
March 13, 2006

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 03-02 Non-compliance with Interstate Stream Loan Agreement – Modified and Repeated
04-01 Expenditures Exceed Budget- Resolved.

CURRENT YEAR AUDIT FINDINGS

03-2. Non-compliance with Interstate Stream Loan Agreement (Modified and Repeated)

Condition

On July 2, 2005, the District remits the excess cash balance to the New Mexico Interstate Stream Commission. We calculated the amount of excess funds as of July 2, 2005 and determined that the District should have remitted \$37,911 to the Interstate Stream Commission (ISC) in accordance with the loan agreement. Instead, the District remitted \$29,161.

Criteria

The New Mexico Interstate Stream Loan Agreement, Item 4, Remittance of Funds states “On July 2 of each year, so long and the District remains indebted to the Commission...it [District] will remit to the Commission any monies in said account ...in excess of Ten Thousand (\$10,000) or 25 % of the average of the funds loaned by the District in the preceding three years, whichever is greater.

Effect

The District is not complying with Item 4 of the loan agreement. Future loan applications could be disapproved as a result.

Cause

The District Coordinator did not calculate the remittance correctly.

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JUNE 30, 2005

Recommendation

Implement procedures to ensure that the remittance amount is calculated correctly based upon bank balance as of July 2nd of each year and submitted to the NMISC on a timely basis.

District's Response

District staff will review the formula and work with bookkeeper to assure the proper amount is remitted.

05-01. Improper expenditure payment

Condition

A \$2,566 payment for an ISC loan belonging to Sierra SWCD was paid out of a Caballo SWCD checking account on May 31, 2005 by check number 1069. The error went undetected until March 13, 2006 when it was found by State Auditor staff.

Criteria

Good accounting practice requires that Caballo SWCD funds be used only to pay its liabilities. Section 13-1-158 prohibits payment for goods and services which are not received.

Cause

Supporting documentation for this expenditure was not adequately reviewed by a board member to ensure that the billing was addressed to Caballo SWCD.

Effect

An improper payment was made which would have been material to the financial statements had it not been detected prior to preparation of the financial statements. Also, an unapproved loan was made to Sierra SWCD without a written loan agreement.

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Recommendation

Review invoices and/or other documentation supporting expenditures very closely prior to signing checks.

District's Response

We believe this occurred due to one staff member being responsible for two districts. In the future each district will have a staff member making the payments. A statement will be submitted to Sierra SWCD for the amount due to Caballo SWCD.

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JUNE 30, 2005

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor. However, the contents remain the responsibility of the District.

Exit Conference

On March 16, 2006, an exit conference was held at the District Office with Ms. Pat Emery, Secretary/Treasurer, Ms. Merry Jo Fahl, District Coordinator, and Ms. Karen Chavez, District Clerk of the Caballo Soil and Water Conservation District. Representing the Office of the State Auditor were Sanjay Bhakta, Audit Senior, and Joyce Sandoval, Audit Supervisor.