



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

STATE OF NEW MEXICO

CABALLO

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

August 26, 2008

SAO Ref No.: 8002

Hector Mendoza, Chairperson
Caballo Soil & Water Conservation District
2101 South Broadway
T or C, NM 87901-3115

SUBJECT: Audit Report –Caballo Soil & Water Conservation District- (District)
2005-2006 Fiscal Year – Prepared by State Auditor’s Office

Enclosed are 8 copies of the above referenced audit.

Ten days from the date of this letter the audit report will become public record according to Section 12-6-5 (A), NMSA 1978. Once the ten day waiting period has passed the audit report will be:

- Released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration and the Office of the State Treasurer; and
- Presented by the District to the governing authority and top management for approval, per Section 2.2.2.10.J.(3)(d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies*.

The independent public accountant’s findings and comments are included in the audit report on pages 22 - 26. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.**

HECTOR H. BALDERAS
STATE AUDITOR

Cc: Legislative Finance Committee
Department of Finance and Administration
Local Government Division
New Mexico State University- Dept of Agriculture

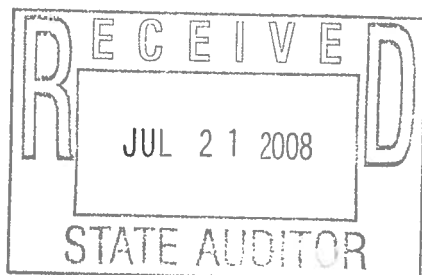
STATE OF NEW MEXICO

CABALLO

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2006

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STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

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STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Hector Mendoza	Chairperson
Harvey Morrow	Vice-Chairperson
Pat Emery	Secretary/Treasurer
Frank Garay	Supervisor
Jake Carpenter	Supervisor
Bruce Redd	Supervisor
Allan Beck	Supervisor
<u>District Personnel</u>	<u>Title</u>
Karen Chavez	Administrative Assistant



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Hector Mendoza, Chairperson
and Members of the Board of Supervisors
Caballo Soil and Water Conservation District
P. O. Box 145
Garfield, NM 87936

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, 2006, 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, 2006, 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 April 20, 2007 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

April 20, 2007

STATE OF NEW MEXICO
 CABALLO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2006

Exhibit 1

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 105,643
Investments	20,672
Interest receivable	3,270
Accounts receivable - loans to ranchers	130,027
Capital assets, net	-
 Total assets	 259,612
Liabilities	
Current liabilities:	
Accounts payable	1,278
Accrued interest on loan	1,506
Due within one year	7,447
Noncurrent liabilities:	
Due in more than one year	118,017
 Total liabilities	 128,248
Net Assets	
Invested in capital assets	-
Restricted for NMISC loans	51,571
Restricted for dams and watershed operations	23,413
Unrestricted	56,380
 Total net assets	 \$ 131,364

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, 2006

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	
Office supplies	\$ 1,488
Dues and subscriptions	100
Awards and presentations	141
Conservation Education	50
Meetings	357
Per diem and mileage	251
Advertising	99
Administration expenses	4,376
Contractual services	3,796
Depreciation	756
Interest on NMISC loans	3,308
 Total program expenses	 14,722
Program Revenues:	
Charges for services:	
Interest on loans to ranchers	5,581
 Total program revenues	 5,581
Net program (expense) revenue	(9,141)
General Revenues:	
NMDA allotment	8,950
Property taxes	1,066
Interest	1,027
Miscellaneous	384
 Total general revenues	 11,427
Change in net assets	2,286
Net assets at beginning of year	129,078
Net assets at end of year	\$ 131,364

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, 2006

Exhibit 3

	General Fund	Special Revenue Funds		Total
		Major Fund Interstate Stream Fund	Major Fund Watershed Fund	
Assets				
Cash and equivalents	\$ 36,257	\$ 45,244	\$ 24,142	\$ 105,643
Investments	20,672	-	-	20,672
Interest receivable	-	3,270	-	3,270
Accounts receivable - ranchers	-	130,027	-	130,027
Due from general fund	-	-	390	390
Total assets	\$ 56,929	\$ 178,541	\$ 24,532	\$ 260,002
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 159	\$ -	\$ 1,119	\$ 1,278
Note payable to ISC	-	-	-	-
Accrued interest payable on ISC loans	-	1,506	-	1,506
Due to watershed fund	390	-	-	390
Total liabilities	549	1,506	1,119	3,174
Fund balances:				
Reserved for debt service	-	125,464	-	125,464
Reserved for NMISC loans	-	51,571	-	51,571
Reserved for dams and watershed operations	-	-	23,413	23,413
Unreserved, undesignated	56,380	-	-	56,380
Total fund balance	56,380	177,035	23,413	256,828
Total liabilities and fund balance	\$ 56,929	\$ 178,541	\$ 24,532	\$ 260,002

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 - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

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)	\$ 256,828
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Notes payable	<u>(125,464)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u>\$ 131,364</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, 2006

Exhibit 4

	Special Revenue Funds			Total
	General Fund	Major Fund	Major Fund	
		Interstate Stream Fund	Watershed Fund	
Revenues				
State allocation	\$ 8,950	\$ -	\$ -	\$ 8,950
Property taxes	-	-	1,066	1,066
Interest	837	5,682	89	6,608
Miscellaneous income	-	384	-	384
	<u>9,787</u>	<u>6,066</u>	<u>1,155</u>	<u>17,008</u>
Total revenues				
	<u>9,787</u>	<u>6,066</u>	<u>1,155</u>	<u>17,008</u>
Expenditures				
Conservation:				
Current:				
Office supplies	1,488	-	-	1,488
Dues and subscriptions	100	-	-	100
Awards and presentations	141	-	-	141
Conservation Education	50	-	-	50
Meetings	357	-	-	357
Per diem and mileage	251	-	-	251
Advertising	99	-	-	99
Administration expenses	-	3,257	1,119	4,376
Contractual services	3,796	-	-	3,796
Debt Service - ISC loan	-	-	-	-
Principal payments	-	36,968	-	36,968
Interest	-	3,308	-	3,308
	<u>6,282</u>	<u>43,533</u>	<u>1,119</u>	<u>50,934</u>
Total expenditures				
	<u>6,282</u>	<u>43,533</u>	<u>1,119</u>	<u>50,934</u>
Net change in fund balances	3,505	(37,467)	36	(33,926)
Fund balance beginning of year	52,875	216,761	23,377	293,013
Restatement	-	(2,259)	-	(2,259)
Fund balance- beginning of the year as restated	<u>52,875</u>	<u>214,502</u>	<u>23,377</u>	<u>290,754</u>
Fund balance end of year	<u>\$ 56,380</u>	<u>\$ 177,035</u>	<u>\$ 23,413</u>	<u>\$ 256,828</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 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balance - Governmental Funds (Exhibit 4) \$ (33,926)

Amounts reported in the Statement of Activities are different because:

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)

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	36,968
New Loan from NMISC	-
	-

Change in net assets - Statement of Activities (Exhibit 2)	\$ 2,286
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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 AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund				Original Budget
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
Revenues					
State allocation	\$ 8,500	\$ 8,500	\$ 8,950	\$ 450	\$ -
Property taxes	-	-	-	-	-
ISC loan proceeds	-	-	-	-	60,000
Loan to ranchers repayments	-	-	-	-	32,512
Interest	300	300	837	537	100
Miscellaneous income	-	-	-	-	-
Total Revenues	8,800	8,800	\$ 9,787	\$ 987	\$ 92,612
Cash balance budgeted	6,095	6,095			
Total revenues and cash balance budgeted	\$ 14,895	\$ 14,895			
Expenditures					
Current:					
Salaries	\$ 8,000	\$ 8,000	\$ 3,637	\$ 4,363	\$ -
Office expenses	450	450	1,488	(1,038)	-
Advertising	150	150	98	52	-
Dues and subscriptions	1,170	1,170	100	1,070	-
Awards and presentations	200	200	141	59	-
Conservation Education	500	500	50	450	-
Meetings	250	250	583	(333)	-
Per diem and mileage	2,000	2,000	251	1,749	-
Bonding	175	175	-	175	-
Conservation projects	1,000	1,000	-	1,000	-
Mill levy referendum	1,000	1,000	-	1,000	-
New loan disbursements	-	-	-	-	60,000
Loans repaid to NMISC	-	-	-	-	18,553
Interest on NMISC loans	-	-	-	-	-
ISP contingency	-	-	-	-	12,500
Operations/maintenance	-	-	-	-	-
Administration	-	-	-	-	1,500
Total expenditures	\$ 14,895	\$ 14,895	\$ 6,348	\$ 8,547	\$ 92,553

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

Interstate Stream Fund			Watershed Fund			
Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	900	900	1,066	166
60,000	-	(60,000)	-	-	-	-
32,512	31,895	(617)	-	-	-	-
100	101	1	50	50	89	39
-	384	384	-	-	-	-
<u>92,612</u>	<u>\$ 32,380</u>	<u>\$ (60,232)</u>	<u>\$ 950</u>	<u>\$ 950</u>	<u>\$ 1,155</u>	<u>\$ 205</u>

-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
60,000	-	60,000	-	-	-	-
18,553	7,806	10,747	-	-	-	-
-	4,061	(4,061)	-	-	-	-
12,500	29,162	(16,662)	-	-	-	-
-	-	-	500	500	-	500
1,500	3,257	(1,757)	100	100	-	100
<u>92,553</u>	<u>\$ 44,286</u>	<u>\$ 48,267</u>	<u>\$ 600</u>	<u>\$ 600</u>	<u>\$ -</u>	<u>\$ 600</u>

Statements are an integral part of this statement.

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 interest amount received from ranchers on loans given to them for conservation projects. Taxes and other items not properly included among program revenues but 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 Interstate Stream and Watershed fund as major funds.

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.

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:

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 at low interest rates for 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.

D. Assets, Liabilities, Net Assets and Fund Balance

1. Cash, cash equivalents, and investments

The District's cash consist of demand deposits and savings accounts.

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, 2006, there are loans with

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

balances of \$2,038 to \$36,650. The total loan receivable balance is \$130,027 with accrued interest receivable of \$3,270. An allowance for doubtful accounts has not been recorded since all loans are considered collectible.

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 consist of amounts due for services received and products purchased in current fiscal year but were not paid for as of June 30, 2006.

3. Net Assets and Fund Balance

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of three components – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, unrestricted net assets, and restricted net assets- wherein the constraints are placed on net asset use either by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. As reported in Exhibit 1, some of the net assets are restricted for NMISC loan program and for operations and maintenance of dams and watersheds.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation and/or are legally restricted by outside parties for use for a specific purpose. As reported in Exhibit 3, the fund balance of the Interstate Stream Fund is reserved for debt service and NMISC loans to land-owners, whereas the fund balance of Watershed Fund is reserved for operations and maintenance of the dams and watersheds.

4. Capital Assets

Capital assets consist of computer equipment (including software), and 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 \$5,000 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

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 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, 2006

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)	\$ 9,787	\$ 32,380	\$ 1,155	\$ 43,322
Less prior year receivables	-	(5,165)	-	(5,165)
Current year receivables	-	3,270	-	3,270
Less prior year loans receivables	-	(154,446)	-	(154,446)
Current year loans receivables	-	130,027	-	130,027
GAAP revenues (Exhibit 4)	<u>\$ 9,787</u>	<u>\$ 6,066</u>	<u>\$ 1,155</u>	<u>\$ 17,008</u>
Non-GAAP expenditures (Exhibit 5)	\$ 6,348	\$ 44,286	\$ -	\$ 50,634
Less prior year payables	(225)	-	-	(225)
Current year accounts payable	159	-	1,119	1,278
Less prior year interest payable	-	(2,259)	-	(2,259)
Current year interest payable	-	1,506	-	1,506
GAAP expenditures (Exhibit 4)	<u>\$ 6,282</u>	<u>\$ 43,533</u>	<u>\$ 1,119</u>	<u>\$ 50,934</u>

When the District receives cash relating to a loan receivable they record the transaction on a cash basis by recording revenue instead of a reduction to the receivable as required by GAAP. Payables are recognized as expenditure in the year the good or service is received on the GAAP basis. The District does not recognize expenditures until the cash transaction occurs. Interest receivable is recorded as revenue by the District when the cash is received instead of recording the interest revenue when the interest is earned as required by GAAP.

III. Detailed Notes on all Funds

A. Cash, cash equivalents and investments

As of June 30, 2006, the District had a carrying amount of deposits of \$105,643. Bank balances for deposits were \$105,731. The difference between the carrying amount and the bank balance of deposits is due to an

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outstanding check of \$88. The total bank balance of \$105,731 consisted of the following:

Bank of the Southwest

Demand deposits – Checking accounts	\$ 97,804	
Less: FDIC coverage	(97,804)	
Amount uninsured	<u>\$ -0-</u>	
Demand deposits – Savings accounts	\$ 7,927	
Less: FDIC coverage	(7,927)	
Amount uninsured	<u>\$ -0-</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 District has \$20,672 invested with the NM State Treasurer’s Local Government Investment Pool (LGIP). The investments are valued at fair value based on quoted market prices as of the valuation date. As of June 30, 2006, the LGIP account was not rated by Standard & Poor’s. The portfolio’s Weighted Average Maturity (WAM) for the fiscal year 2006 was 44 days.

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 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.

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B. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Description	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Governmental activities:				
Computer Equipment	\$ 2,268	\$ -	\$ -	\$ 2,268
Less: Accumulated depreciation	<u>(1,512)</u>	<u>(756)</u>	<u>-</u>	<u>(2,268)</u>
Capital assets, net	<u>\$ 756</u>	<u>\$ (756)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for FY 2006 was \$756 which was charged to the governmental function of conservation.

C. Notes Payable

The District entered into four loan agreements with the New Mexico Interstate Stream Commission (ISC) for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the loan agreements are as follows:

<u>Loan #</u>	<u>457</u>	<u>461</u>	<u>478</u>	<u>503</u>
Date of Loan	01/21/99	01/11/00	03/21/01	06/30/04
Amount of Loan	\$20,000	\$50,000	\$40,000	\$75,000
Interest Rate	2.5%	2.5%	2.5%	2.5%
Total Years	20	20	20	20
Yearly Payment	\$1,283	\$3,207	\$2,566	\$4,801

Out of four loans listed above, loan number 457 was paid off during the fiscal year 2006.

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The debt service requirements to maturity at June 30, 2006, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2007	\$ 7,447	\$ 3,137	\$ 10,584
6/30/2008	7,634	2,950	10,584
6/30/2009	7,825	2,760	10,585
6/30/2010	8,020	2,564	10,584
6/30/2011	8,221	2,363	10,584
Five years ending 6/30/2016	44,291	8,629	52,920
Five years ending 6/30/2021	<u>42,026</u>	<u>2,775</u>	<u>44,801</u>
Total	<u>\$ 125,464</u>	<u>\$ 25,178</u>	<u>\$ 150,642</u>

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2006 was as follows:

	<u>Balance 6/30/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/06</u>	<u>Amount due within 1 year</u>
NMISC					
Loan Payable	<u>\$162,432</u>	<u>-</u>	<u>\$36,968</u>	<u>\$125,464</u>	<u>\$7,447</u>

The District did not have any short term debt activity in fiscal year 2006.

D. Prior Period Restatement of Fund Balance

For the year ending June 30, 2005, an interest payable accrual on ISC loans for \$2,259 was posted in government-wide financial statements on the accrual basis of accounting; however, it wasn't posted in the fund financial statements on the modified accrual basis of accounting. Therefore, a prior period restatement of fund balance in the Interstate Stream Fund was required.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 \$1,050,000 for each wrongful act and \$1,050,000 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 for \$45,000 was paid off during fiscal year 2006. The other loan was made to a corporation of which he is the principal. The loan receivable balance outstanding on that loan as of June 30, 2006 was \$17,780. 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, 2006 was \$14,933. The rates and terms of the loans to related parties were comparable to the terms and rates for loans made to non-related parties.



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

**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
P.O. Box 145
Garfield, NM 87936

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, 2006 and have issued our report dated April 20, 2007. 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 responses as items 06-2 and 06-3.

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. However, the reportable conditions described above are 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 03-2 and 06-1.

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, New Mexico Department of Finance and Administration 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

April 20, 2007

STATE OF NEW MEXICO
CABALLO SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

03-02 Non-compliance with Interstate Stream Loan Agreement – Modified and Repeated

05-01 Improper expenditure payment - Resolved.

CURRENT YEAR AUDIT FINDINGS

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

Condition

On July 2, 2006, the District remitted excess cash balance to the New Mexico Interstate Stream Commission. We calculated the amount of excess funds as of July 2, 2006 and determined the District should have remitted \$35,243 to the Interstate Stream Commission (ISC) in accordance with the loan agreement. Instead, the District remitted only \$29,150.

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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EXIT CONFERENCE
JUNE 30, 2006

Recommendation

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

District's Response

District staff will ensure the proper amount is remitted on a timely basis with the correct formula, using July 2nd bank balance.

06-1. Cash Deposits Not Made in a Timely Manner

Condition

During our test work of revenue, we noted that out of 13 checks tested for timely deposit, 11 were not deposited to the bank within 24 hours of receipt.

Criteria

Section 6-10-3 NMSA 1978 requires deposit of all receipts within 24 hours of receiving funds.

Effect

The District is not in compliance with the State law. A trend of such late deposits may result in a potential loss of receipts, fraud, misappropriation of assets, and misreporting of deposit information.

Cause

The new Administrative Assistant was unaware of the requirement. It was not possible in all instances to determine, by the auditors, the date the check was received due to lack of proper record keeping such as date stamping the check stub.

Recommendation

When the District receives checks for different purposes, the check stub should be date stamped when received and retained after the check is deposited for audit purposes.

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EXIT CONFERENCE
JUNE 30, 2006

The District needs to deposit cash received within 24 hours or the next business day.

District's Response

District staff will deposit checks within 24 hours upon receipt or as soon as reasonably possible. The check stubs will be stamped with date received and retained for audit purpose.

06-2. Improper Classification of Expenditure

Condition

During our analytical review of the General ledger categories, we noted that in 14 instances the administration expenditures totaling \$2,987 paid out of ISC checking account was posted as salary expenditures in the General Fund instead.

Criteria

Generally accepted accounting principles require the proper classification and recording of expenditures in appropriate fund.

Cause

The District has not set up separate line items for identical expenditures for each fund and thereby commingles expenditures meant to be posted to a similar line item, but in a different fund.

Effect

Improper posting of line items makes it difficult to accurately compare budgeted to actual expenditures. Salaries in the General Fund were overstated and administrative expenses in ISC Fund were understated by \$2,987.

Recommendation

A check issued from a particular fund should be posted to the proper expenditure category in that fund only. If a line item is budgeted in a particular fund, it should be set up in accounting software even if a similar line item already exists in different fund.

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JUNE 30, 2006

District's Response

District staff will implement budget line items in the accounting software for each individual fund.

06-3. Non-Compliance With IRS Regulations

Condition

Out of seven time-sheets tested, FICA tax was deducted in four instances totaling \$103 but was not remitted to the IRS. Furthermore, the District did not issue an IRS form W-2 or 1099 to the Administrative Assistant for wages and contractual service payments made to her and did not report it to the IRS. The amount paid to the Administrative Assistant during the year was \$3,796.

Criteria

The IRS requires employers to remit the taxes deducted from employee's wages along with the employer's portion of the tax in a timely manner. The IRS also requires an employer to issue the W-2 form for the wages paid to an employee regardless of the amount. If the amount paid was treated as payment towards a contractual agreement, then the entity is required to issue form 1099 to the contract worker with a copy to the IRS if such payment exceeded \$700 in a calendar year.

Effect

The District is not in compliance with IRS regulations and codes by failing to remit the taxes to the IRS and by failing to issue the W-2 or 1099 to the Administrative Assistant. The District may be penalized by the IRS for incorrect filing of taxes and the incorrect classification of a contractor v. an employee.

Cause

The District contracted with the Administrative Assistant as a contractor, then decided to employ her as a regular employee, and then once again converted her status in to a contractor. The Administrative Assistant and the Board were unaware of District's responsibility of issuing a 1099 and/or W-2.

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EXIT CONFERENCE
JUNE 30, 2006

Recommendation

The District should determine, based upon the IRS criteria, whether a person is a contractor or an employee. Based upon the result of such evaluation, the IRS form W-2 or 1099 should be issued to the employee and reported to the IRS. Any unpaid taxes and potential penalty for the late payments should be paid immediately to the IRS.

District's Response

The District will issue a 1099 to contract employee and submit to the IRS immediately. The District voted to hire the Administrative Assistant as a regular employee starting April 24, 2007. The District will work closely with the Administrative Assistant to ensure all proper payroll documentation is submitted to the IRS in a timely manner.

STATE OF NEW MEXICO
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EXIT CONFERENCE
JUNE 30, 2006

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 April 20, 2007, an exit conference was held at the District Office in Garfield, NM with Ms. Pat Emery, Secretary/Treasurer of the Caballo Soil and Water Conservation District. Representing the Office of the State Auditor were Peter J. Pacheco, Staff Auditor, and Sanjay Bhakta, Audit Supervisor.