

STATE OF NEW MEXICO
CIUDAD
SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2005

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STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
J. Steven Glass	Chairperson
Richard Becker	Vice-Chairperson
Lauro Silva, appointed June 6, 2005	Secretary/Treasurer
Cecil Padilla, resigned May 2, 2005	Secretary/Treasurer
Macario Griego	Supervisor
David Lujan	Supervisor
Fred Rael	Supervisor
Sara Newton-Juarez	Supervisor

<u>District Personnel</u>	<u>Title</u>
Susan Rich	Natural Resources Specialist



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. J. Steven Glass, Chair
and Members of the Board of Supervisors
Ciudad Soil and Water Conservation District
6200 Jefferson NE, Room 125
Albuquerque, New Mexico 871109

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Ciudad 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.

Except as discussed in the following paragraph, 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.

The District was unable to develop a balanced general ledger from its accounting software which would reconcile cash from the beginning of the fiscal year to the end of the fiscal year. Further, the total of the cash deposited to the bank account could not be reconciled to the revenue received according to the District's accounting software. Likewise, the total of the cash disbursements from the bank account could not be reconciled to the expenditures according to the District's accounting software.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the proper recording of revenues, accounts receivable and expenditures for the District, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary

comparison for the general fund 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 23, 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 23, 2007

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

	Governmental Activities
Assets	
Cash	\$ 92,233
Due from grantors	181,351
Accounts receivable	20,779
Prepaid expenses	60
Capital assets, net	<u>63,532</u>
Total assets	<u>357,955</u>
Liabilities	
Accounts payable	155,892
Accrued payroll	4,665
Deferred revenue	28,953
Noncurrent liabilities:	
Due within one year	1,913
Due in more than one year	<u>40,000</u>
Total liabilities	<u>231,423</u>
Net Assets	
Invested in capital assets	63,532
Restricted	-
Unrestricted	<u>63,000</u>
Total net assets	<u><u>\$ 126,532</u></u>

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

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

Exhibit 2

		Governmental Activities
Program Expenses:		
Conservation:		
East Mountain Forest Health Project	\$ 258,895	
Salt cedar project	499,379	
Mid Rio Grande Watershed Project	21,055	
Tijeras Creek project	5,063	
Rolling River project	4,194	
Rio Puerco project	825	
Secretarial and administrative services	13,503	
Per diem and mileage	274	
Bonding/Insurance	366	
Dues	1,170	
Office, postage and misc. supplies	231	
Advertising and legal services	129	
Subdivision review and soil tests	2,657	
Miscellaneous	500	
Education and meeting	546	
Depreciation	16,745	
Total program expenses	825,532	
Program Revenues:		
Charges for services	81,188	
Federal operating grants and contracts	237,277	
State operating grants and contracts	501,793	
Private grants	600	
Contributed capital assets/state capital grant	22,168	
Total program revenues	843,026	
Net program (expense) revenue	17,494	
General Revenues:		
State Allotment	9,775	
Reimbursements	450	
Miscellaneous	454	
Interest	118	
Total general revenues	10,797	
Change in net assets	28,291	
Net assets at beginning of year	98,241	
Net assets at end of year	\$ 126,532	

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

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

	General Fund
Assets	<u> </u>
Cash	\$ 92,233
Due from grantors	181,351
Accounts receivable	20,779
Prepaid expenses	60
Total assets	<u>\$ 294,423</u>
 Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 155,892
Accrued payroll	4,665
Deferred revenue	28,953
Total liabilities	<u>189,510</u>
Fund balance:	
Unreserved, undesignated	<u>104,913</u>
Total fund balance	<u>104,913</u>
Total liabilities and fund balance	<u>\$ 294,423</u>

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

STATE OF NEW MEXICO
 CIUDAD SOIL AND WATER CONSERVATION DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 FOR THE FISCAL YEAR ENDED 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)	\$ 104,913
Capital assets, net of accumulated depreciation	63,532

Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Notes payable	(40,000)
Compensated absences	<u>(1,913)</u>

Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 126,532</u></u>
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STATE OF NEW MEXICO
 CIUDAD SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>
Revenues	
State allocation	\$ 9,775
Operating grants	
East Mountain Forest Health	179,012
Salt Cedar Project	499,379
Mid Rio Grande Watershed Project	21,055
Tijeras Creek Project	30,209
Upper Rio Grande Project	2,415
Rolling Rivers Project	7,000
Quivira Coalition	600
Capital grant-NMSU	22,168
Subdivision review & soil tests	450
Charges for services-tree thinning	79,883
Rental of equipment	1,305
Miscellaneous	453
Interest income	118
Total revenues	<u>853,822</u>
Expenditures	
Conservation:	
Current:	
East Mountain Forest Health Project	258,895
Salt Cedar project	499,379
Mid Rio Grande Watershed Project	21,055
Tijeras Creek project	5,063
Rolling River project	4,194
Rio Puerco project	825
Secretarial and administrative services	13,976
Per diem and mileage	274
Bonding/insurance	366
Dues	1,170
Office, postage and misc. supplies	231
Advertising and legal services	129
Subdivision review and soil tests	2,657
Miscellaneous	500
Education and meeting	546
Capital outlay	22,168
Total expenditures	<u>831,428</u>
Excess of revenues over expenditures	22,394
Other Financing Sources	
Proceeds of long-term note	<u>40,000</u>
Net change in fund balance	62,394
Fund balance beginning of year	<u>42,519</u>
Fund balance end of year	<u>\$ 104,913</u>

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

STATE OF NEW MEXICO
 CIUDAD SOIL AND WATER CONSERVATION DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balance - Governmental Funds (Exhibit 4) \$ 62,394

Amounts reported in the Statement of Activities are different because:

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 decrease for the liability not recorded in the balance sheet is: 474

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	22,168
Depreciation expense	(16,745)

Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. This is the amount the District borrowed during the current fiscal year:

Change in net assets - Statement of Activities (Exhibit 2)	(40,000)
	<u>\$ 28,291</u>

STATE OF NEW MEXICO
 CIUDAD SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
State allocation	\$ 10,300	\$ 9,775	\$ 9,775	\$ -
USDA East Mountain Forest Health Grant	400,000	370,000	224,791	(145,209)
Salt Cedar Project	180,000	575,000	354,914	(220,086)
Mid Rio Grande Watershed Project	80,000	85,000	23,238	(61,762)
Tijeras Creek Project	25,000	20,209	29,551	9,342
NMACD - Upper Rio Grande Project	-	-	2,763	2,763
U.S. Department of Interior Rolling River Grant	8,000	8,000	7,000	(1,000)
Quivira Coalition grant	-	-	600	600
Capital grant-NMSU	-	-	22,168	22,168
Recovery of bad debts	3,773	3,773	-	(3,773)
Charges for Services-tree thinning	-	-	65,857	65,857
Rental of equipment	1,000	1,000	1,085	85
Sandoval County Grant	2,000	2,000	-	(2,000)
Subdivision Review & Soil Tests	1,000	1,000	450	(550)
Interest Income	-	-	174	174
Miscellaneous	-	-	453	453
Total revenues	<u>\$ 711,073</u>	<u>\$ 1,075,757</u>	<u>\$ 742,819</u>	<u>\$ (332,938)</u>
Expenditures				
Current:				
East Mountain Forest Health Project	\$ 405,010	\$ 388,979	\$ 282,043	\$ 106,936
Salt Cedar Project	174,906	554,279	364,330	189,949
Mid Rio Grande Watershed Project	71,559	75,839	21,012	54,827
Tijeras Creek project	23,772	23,214	4,988	18,226
Rolling River project	4,793	5,192	4,150	1,042
Rio Puerco project	571	571	825	(254)
Secretarial and administrative services	1,141	2,513	14,327	(11,814)
Per diem and mileage	800	800	397	403
Bonding and insurance	3,200	3,200	1,522	1,678
Dues	1,000	1,000	1,170	(170)
Office, postage and misc. supplies	400	1,400	231	1,169
Legal advertising	150	150	124	26
Subdivision review and soil tests	1,371	600	2,657	(2,057)
Education and meeting	1,700	1,700	663	1,037
Accounting and bookkeeping	7,200	-	-	-
Administration/Payroll	10,000	10,350	-	10,350
Fuel	-	1,470	-	1,470
Bad debts	3,000	3,000	-	3,000
Miscellaneous	500	500	500	-
Capital outlay	-	-	22,168	(22,168)
Total expenditures	<u>\$ 711,073</u>	<u>\$ 1,074,757</u>	<u>\$ 721,107</u>	<u>\$ 353,650</u>

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

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Ciudad 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, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* in fiscal year 2004. 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
CIUDAD 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) landowner payments for tree thinning in the East Mountain Forest Health Project, 2) equipment rentals paid for the use of District equipment and 3) federal and state grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The allotment received through New Mexico State University and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. The general fund is the District's only governmental fund and is reported in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 including amounts received from grants and contracts are recognized as soon as they are measurable and available. These 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, expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

Interest associated with the current fiscal period and all other revenue items are considered to be measurable and available only when cash is received by the government.

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

The District reports the following major governmental fund:

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.

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.

The District has a single fund. Thus, there is no interfund activity to be 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 and Cash Equivalents

The District's cash and cash equivalents are considered to be demand deposits and short term investments (a certificate of deposit) with a maturity of one year.

2. Receivables and Payables

Receivables consist of amounts due from grantors and cost share receivables from landowners. Payables consist of amounts due to employees and third parties for payroll related expenditures, as well as amounts due to vendors for goods and services received as of June 30, 2005.

3. Capital Assets

Capital assets, which include property and equipment (including software) 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.

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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

Modular Building	10 years
Vehicles	5 years
Office equipment	5 years
Farm equipment	7 years
Computer equipment	5 years

4. Note payable

The District borrowed \$40,000 from Bernalillo County in December 2004. The loan is to be repaid without interest on December 31, 2007. The purpose of the loan is to provide the District with working capital to cover the lag time between the time the District pays subcontractors and suppliers on projects and the time reimbursement is received from grantors. The expenditure-driven grants the District receives require payment be made before reimbursement can be received from the grantor.

5. Deferred Revenue

The District reports deferred revenue in connections with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Also, revenue recognition is deferred in connection with resources that have been received, but not yet earned.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements. A current liability for these amounts is reported in the governmental funds only if they are due and payable at year-end, for example, as a result of resignations and retirements.

According to District policy, employees accrue leave at 20 hours per quarter for the first two years. After three years of employment the employee earns 30 hours per quarter. Employees may not carry more than 80 hours forward from one calendar year to the next.

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

7. 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 assets 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. The District currently has no restricted net assets. In the fund financial statements, governmental funds report no reservations of fund balance.

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
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

B. Reconciliation of Non-GAAP Budget to GAAP Basis Financial Statement

	General Fund	
Non-GAAP revenues (Exhibit 5)	\$ 742,819	
Prior year receivables	(90,846)	
Prior year deferred revenue	30,209	
Current year deferred revenue	(28,953)	
Current year refund payable	(1,537)	
Current year receivables	202,130	
GAAP revenues (Exhibit 4)	<u>\$ 853,822</u>	
Non-GAAP expenditures (Exhibit 5)	\$ 721,107	
Prior year payable	(44,035)	
Prior year payroll accrual	(4,664)	
Current year payable, net of refunds	154,355	
Current year payroll accrual	4,665	
GAAP expenditures (Exhibit 4)	<u>\$ 831,428</u>	

III. Detailed Notes on all Funds

A. Cash and Cash Equivalents

As of June 30, 2005, the District had a carrying amount of deposits of \$92,233. The bank balances for deposits were \$94,330. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$2,097. The total bank balance of \$94,330 consisted of the following:

Bank of the West:		
Demand Deposits		Certificate Of Deposit
Balance per bank	\$ 87,000	\$ 7,330
Less: FDIC coverage	<u>(87,000)</u>	<u>(7,330)</u>
Amount uninsured	<u>\$ -0-</u>	<u>\$ -0-</u>

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2005, none of the Districts bank balances were exposed to custodial credit risk.

B. Receivables

As of June 30, 2005, \$181,351 is due from the various grantors for reimbursable expenditures incurred under grant agreements for the various projects. Also, the accounts receivable balance of \$20,779 consists of amounts due from landowners under cost-share agreements for tree thinning activities on their properties and amounts due for equipment rental. The District considers all of the receivables to be collectible; therefore, an allowance for uncollectible accounts has not been established.

C. Capital Assets

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

Description	Balance		Deletions	Balance	
	6/30/04	Additions		6/30/05	
Equipment	\$ 63,373	\$ 22,168	\$ -	\$ 85,541	
Office equipment	7,713	-	-	7,713	
Building	<u>3,960</u>	-	-	<u>3,960</u>	
Totals	75,046	22,168	-	<u>97,214</u>	
Less Accumulated depreciation:					
Equipment	(16,370)	(14,806)	-	(31,176)	
Office equipment	(567)	(1,543)	-	(2,110)	
Building	-	(396)	-	(396)	
Net capital assets	<u>\$ 58,109</u>	<u>\$ 5,423</u>	<u>\$ -</u>	<u>\$ 63,532</u>	

All of the \$16,745 of depreciation is charged to the conservation function.

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

D. Long-Term Debt

Changes in Long-term Liabilities

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

	Balance <u>6/30/04</u>	Increases	Decreases	Balance <u>6/30/05</u>	Amount due <u>within 1 year</u>
Note payable	\$ -	\$40,000	\$ -	\$40,000	\$ -
Compensated absences	<u>2,387</u>	<u>6,771</u>	<u>7,245</u>	<u>1,913</u>	<u>1,913</u>
Totals	<u>\$ 2,387</u>	<u>\$46,771</u>	<u>\$ 7,245</u>	<u>\$41,913</u>	<u>\$ 1,913</u>

Compensated absences are liquidated by the general fund. The note payable, when it becomes due, will also be liquidated by the general fund.

IV. Other Information

A. Employee Retirement Benefits

The District does not offer pension plan, deferred compensation plan or post-employment benefits to its employee for the year then ended.

B. 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 \$1,050,000 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 \$25,000 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.

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

D. Joint Powers Agreements –

Upper Rio Grande Salt Cedar Project

During the 2002 session, the New Mexico State Legislature appropriated \$2.5 million to the New Mexico Department of Agriculture to remove salt cedar from the Rio Grande Basin. An additional \$600,000 was appropriated in 2003. As a result of these appropriations, a joint powers agreement was established for this project. During the fiscal year ending June 30, 2005, no funds from this joint powers agreement flowed through the District. The terms of the agreement are summarized as follows:

Date of agreement:	July 1, 2004
Participants:	New Mexico Association of Conservation Districts and the Ciudad, Coronado, East Rio Arriba, Santa Fe-Pojoaque and Valencia Soil and Water Conservation Districts
Responsible party for operations:	New Mexico Association of Conservation Districts
Description:	Upper Rio Grande Salt Cedar Project
Beginning and ending date of agreement:	July 1, 2004 to June 30, 2006
Total estimated amount:	\$633,333
Amount expended to date:	\$336,762
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	New Mexico Association of Conservation Districts
The government agency where revenues and expenditures are reported:	New Mexico State University

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
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East Mountain Forest Health Project

This joint powers agreement is a master agreement under which annual contracts are entered into between the District and the New Mexico Energy, Minerals and Natural Resources Department for operation of the East Mountain Forest Health Project. This project coordinates the thinning of the forests in areas where homes have been built in the Sandia and Manzano Mountains east of Albuquerque. A major objective of the project is to reduce the likelihood of wildfire that could result in the destruction of homes built in the area.

Date of agreement:	August 19, 2003
Participants:	State of New Mexico Energy Minerals and Natural Resources Department and Ciudad Soil and Water Conservation District
Responsible party for operations:	Ciudad Soil and Water Conservation District
Description:	East Mountain Forest Health Project
Beginning and ending date of agreement:	Begin: August 19, 2003. End: June 30, 2004 but may be extended one year at a time. On June 21, 2004, extended through June 30, 2005. Subsequently extended to June 30, 2006.
Total estimated amount:	\$634,000
Amount expended to date:	\$575,797
Audit responsibility:	Ciudad Soil and Water Conservation District
Fiscal agent:	Ciudad Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	Ciudad Soil and Water Conservation District

Middle Rio Grande Watershed Project

This joint powers agreement between the District and the New Mexico Environment Department has as its primary objective creation of a Watershed Group for the Middle Rio Grande/Albuquerque Watershed. The watershed group to be formed will then establish priorities for watershed restoration and establish best management practices for groundwater pollution control within the watershed.

Date of agreement:	August 16, 2004
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STATE OF NEW MEXICO
 CIUDAD SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2005

Participants:	State of New Mexico Environment Department and Ciudad Soil and Water Conservation District
Responsible party for Operations:	Ciudad Soil and Water Conservation District
Description:	Middle Rio Grande Watershed Project
Beginning and ending date of agreement:	Begin: August 16, 2004 End: June 30, 2006
Total estimated amount:	\$85,000
Amount expended to date:	\$21,055
Audit responsibility:	Ciudad Soil and Water Conservation District
Fiscal agent:	Ciudad Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	Ciudad Soil and Water Conservation District

Access to Middle Rio Grande Conservancy District Lands

This agreement formalizes the agreement between the District and Middle Rio Grande Conservancy District (Middle Rio Grande). Middle Rio Grande owns or otherwise controls much of the land along the Rio Grande in Central New Mexico. Some of these lands are included in the non-native phreatophyte eradication and control program operated by the District.

Date of agreement:	June 17, 2003
Participants:	Middle Rio Grande Conservancy District Ciudad Soil and Water Conservation District
Responsible party for Operations:	Ciudad Soil and Water Conservation District
Description:	Access to land owned by or controlled by Middle Rio Grande Conservancy District for a non-native phreatophyte eradication and control program
Beginning and ending date of agreement:	Begin: June 17, 2003 End: June 17, 2008
Total estimated amount:	0
Amount expended to date:	0
Audit responsibility:	n/a
Fiscal agent:	n/a
The government agency where revenues and expenditures are reported:	n/a



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*

Mr. J. Steven Glass, Chair
and Members of the Board of Supervisors
Ciudad Soil and Water Conservation District
6200 Jefferson NE, Room #125
Albuquerque, New Mexico 87109

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Ciudad Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated April 23, 2007. A qualified opinion was issued on the financial statements of the District. The District was unable to develop a balanced trial balance that reconciled cash from the beginning of the fiscal year to the end of the fiscal year. Further, the District's trial balance could not be reconciled to the amounts of revenue and expenditures that flowed through the District bank account during the year. 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. Reportable conditions are described in the accompanying schedule of findings and recommendations as item 03-5.

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, of the reportable conditions described above, we consider item 03-5 to be a material weakness.

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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as item 05-1.

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration, 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

April 23, 2007

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

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 03-2. Expenditures in Excess of Budget – Resolved and Not Repeated.
- 03-4. Unrecorded Accounts Receivable – Resolved and Not Repeated.
- 03-5. Inaccurate Recording of Revenues and Expenditures – Not Resolved; Modified and Repeated.
- 03-6. Inaccurate Grant Billings – Resolved and Not Repeated.
- 04-1. Underreported Wages on 941 Forms – Resolved and Not Repeated.

CURRENT YEAR AUDIT FINDINGS

- 03-5. Inaccurate Recording and Reporting of Transactions in Accounting System –Modified and Repeated
- 05-1. Uncollateralized Bank Account

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

CURRENT YEAR AUDIT FINDINGS

Finding 03-5. Inaccurate Recording and Reporting of Transactions in Accounting System (Material Weakness) - Modified and Repeated.

Condition

The District has not been able to produce a balanced general ledger that properly accounts for all of its assets, liabilities, net equity, revenues and expenditures. In accounting terminology, a general ledger is considered to be "balanced" if the debits equal the credits. In order to conduct an audit, it is necessary to begin with a general ledger that is in balance.

The auditors had to derive amounts from two different reports produced from the Quick Books software in order to develop a substitute for a client-prepared trial balance. The result was a listing that presented debit and credit balances for the District's accounts, but the list did not balance. Debits exceeded credits by \$9,477.34. The auditors expended considerable time trying to develop a balanced trial balance from the information produced from the Quick Books software but to no avail.

Criteria

Double entry bookkeeping requires that debits equal credits. This is one of the principles of accounting and is a major part of the foundation upon which accurate and meaningful financial statements are built.

Effect

The general ledger is out of balance and the actual revenues and expenditures for the District may be obscured and misstated. The general ledger may be incomplete.

Cause

The Quick Books software asks the user to select between the cash or the accrual basis of accounting to enter and record accounting transactions. The District did not use this accounting function properly. The out of balance in the general ledger may result from the District entering a combination of cash basis and accrual basis amounts. Some

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

transactions may have been entered incorrectly. This includes entries where only the debit or only the credit has been recorded. Also, Quick Books is a basic accounting software package which was developed for small businesses. It was not developed for governments that have multiple sources of revenues and a need to maintain job cost records to track funds from these different sources.

Recommendation

The District should consider purchasing new accounting software which is based on double entry bookkeeping that will enable the District to produce a general ledger that is in balance at the end of each month, as well as at the end of the fiscal year. The software should also enable the District to keep track of the revenues and expenditures for each of the programs funded by grants and contracts.

District's Response

The District is hiring a new bookkeeper and is moving to cash-basis only bookkeeping which is not complete yet, despite the former bookkeeper's efforts. The District will evaluate other software in FY 2008 and will continue the use of spreadsheets to track grant balances.

Finding 05-01 – Uncollateralized Bank Account

Condition

During five months of the fiscal year ending June 30, 2005, the District's cash balance on deposit at the bank exceeded the FDIC limit of \$100,000. In February 2005, the District was uncollateralized the most with a balance of \$127,730. The District was not under collateralized as of June 30, 2005.

Criteria

The Public Money statutes, Section 6-10-17 NMSA 1978 requires the bank to collateralize the District's bank account in an amount equal to one half of the public monies in excess of the FDIC insured amount.

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

Effect

The District had cash on deposit at the bank that was at risk of loss in the case of bank failure.

Cause

The bank did not post collateral because it may not have recognized that the District's account was a government account. The District also had much more cash in the bank this year and exceeded the \$100,000 threshold for the first time.

Recommendation

The District should call the bank to flag the account as a government account so bank employees can monitor the account balance and then post collateral when needed.

District's Response

On March 22, 2006, the bank posted adequate collateral for amounts over the FDIC limit of \$100,000.

STATE OF NEW MEXICO
CIUDAD SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
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 May 25, 2007, an exit conference was held at the District Office with Mr. J. Steven Glass, Chairperson and Ms. Sue Hansen, Project Manager of the Ciudad Soil and Water Conservation District. Representing the Office of the State Auditor was John R. Earnshaw, CPA, Audit Manager. The results of the audit were discussed.