

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
ROSWELL, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2012

Barr & Company, LLP
Roswell, New Mexico

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

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For the Year Ended June 30, 2012

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STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
Official Roster
June 30, 2012

BOARD OF SUPERVISORS

John Sisk	Chairman
Aubrey Dunn	Vice-Chairman
LeRoy Lang	Secretary/Treasurer
W.E. Bonham	Member
Joe Barraza	Member
Doug Whitney	Member
Jerry Vaz	Member

DISTRICT PERSONNEL

Joy Wagner	Administrative Assistant
Kelli Van Winkle	Noxious Weed Coordinator



Barr & Company, L.L.P.

BARR & COMPANY, L.L.P.

Certified Public Accountants

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Roswell, NM 88202

(575) 627-1400 • Fax (575) 627-1111

INDEPENDENT AUDITOR'S REPORT

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the Chaves Soil and Water Conservation District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison for the General Fund and the Loan Fund of the Chaves Soil and Water Conservation District (the "District"), as of and for the year ended June 30, 2012, 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 the 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, 2012, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and the Loan Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Barr & Company, L.L.P.

November 28, 2012

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
 Government-Wide Statement of Net Assets
 June 30, 2012

	Governmental Activities
ASSETS	
Current Assets	
Cash in Banks	\$ 370,818
Temporary Investments	185,924
Taxes Receivable	2,143
Interest Receivable	2,860
Current Portion of Notes Receivable	51,544
Inventory	20,325
Total Current Assets	633,614
Noncurrent Assets	
Investments	9,117
Capital Assets	26,758
Less: Accumulated Depreciation	(10,913)
Notes Receivable	250,521
Less: Current Portion	(51,544)
Total Noncurrent Assets	223,939
Total Assets	857,553
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	1,863
Accrued Salaries and Benefits	660
Compensated Absences	6,486
Current Portion of Loans Payable	27,879
Total Current Liabilities	36,888
Noncurrent Liabilities	
Loans Payable	360,229
Less: Current Portion	(27,879)
Total Noncurrent Liabilities	332,350
Total Liabilities	369,238
Net Assets	
Invested in Capital Assets	15,845
Restricted for the Loan Program	51,433
Unrestricted	421,037
Total Net Assets	\$ 488,315

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
 Government-Wide Statement of Activities
 For the Year Ended June 30, 2012

	<u>Governmental Activities</u>
Program Expenses	
Personnel Services	\$ 93,492
Conservation Programs	68,802
Operating Expenses	23,247
Interest	11,268
Total Program Expenses	<u>196,809</u>
Net Program (Expense) Revenue	<u>(196,809)</u>
General Revenues	
Property Taxes	166,478
State Allocation	8,825
Conservation Grant	25,500
Chemical Sales	15,186
Interest Income	14,477
Miscellaneous	17,561
Total General Revenues	<u>248,027</u>
Change in Net Assets	51,218
Net Assets at Beginning of Year	425,327
Prior Period Adjustment	<u>11,770</u>
Net Assets at End of Year	<u><u>\$ 488,315</u></u>

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
 GOVERNMENTAL FUNDS
 Balance Sheet
 June 30, 2012

	General Fund	Loan Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 253,041	\$ 117,777	\$ 370,818
Temporary Investments	145,420	40,504	185,924
Taxes Receivable	2,143	-	2,143
Interest Receivable	-	2,860	2,860
Inventory	20,325	-	20,325
Investments	9,117	-	9,117
Notes Receivable	-	250,521	250,521
Total Assets	\$ 430,046	\$ 411,662	\$ 841,708
 LIABILITIES AND FUND BALANCE			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 1,863	\$ -	\$ 1,863
Accrued Salaries and Benefits	660	-	660
Total Liabilities	2,523	-	2,523
 Fund Balance			
Nonspendable, Reported in			
General Fund	20,325	-	20,325
Restricted, Reported in			
Special Fund	-	411,662	411,662
Unassigned, Reported in			
General Fund	407,198	-	407,198
Total Fund Balance	427,523	411,662	839,185
Total Liabilities and Fund Balance	\$ 430,046	\$ 411,662	\$ 841,708

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Assets
 June 30, 2012

Total Fund Balance - Governmental Funds \$ 839,185

Amounts reported for governmental activities in the Statement of Net Assets
 are different because:

Capital assets used in governmental activities are not
 financial resources and, therefore, are not reported as assets
 in governmental funds.

	\$	26,758	
The cost of capital assets			
Accumulated depreciation		<u>(10,913)</u>	15,845

Compensated absences incurred have not matured and,
 therefore, are not reported as liabilities in the funds. (6,486)

Long-term liabilities, including loans payable, are not due
 and payable in the current period and, therefore, are not
 reported as liabilities in the funds. Long-term liabilities at year
 end consist of: (360,229)

Total Net Assets - Governmental Activities \$ 488,315

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and Changes
in Fund Balance
For the Year Ended June 30, 2012

	General Fund	Loan Fund	Total
Revenues			
Property Taxes	\$ 166,478	\$ -	\$ 166,478
State Allocation	8,825	-	8,825
Conservation Grant	25,500	-	25,500
Chemical Sales	15,186	-	15,186
Interest Income	973	13,504	14,477
Miscellaneous	17,561	-	17,561
Total Revenues	<u>234,523</u>	<u>13,504</u>	<u>248,027</u>
Expenditures			
Current			
Personnel Services	92,334	-	92,334
Conservation Programs	69,561	-	69,561
Auto	2,287	-	2,287
Audit	5,418	-	5,418
Education	3,061	-	3,061
Insurance & Bond	359	-	359
Miscellaneous	628	-	628
Office & Postage	3,399	-	3,399
Travel & Per Diem	4,477	-	4,477
Workshop Expenses	3,618	-	3,618
Debt Service			
Principal	-	191,004	191,004
Interest	-	11,268	11,268
Total Expenditures	<u>185,142</u>	<u>202,272</u>	<u>387,414</u>
Excess (Deficiency) of Revenues Over Expenditures	49,381	(188,768)	(139,387)
Increase in Nonspendable Fund Balance	<u>3,227</u>	<u>-</u>	<u>3,227</u>
Net Change in Fund Balance	52,608	(188,768)	(136,160)
Fund Balance at Beginning of Year	357,817	600,430	958,247
Prior Period Adjustment	<u>17,098</u>	<u>-</u>	<u>17,098</u>
Fund Balance at End of Year	<u>\$ 427,523</u>	<u>\$ 411,662</u>	<u>\$ 839,185</u>

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 to the Statement of Activities
 For the Year Ended June 30, 2012

Net Change in Fund Balance-Governmental Funds \$(136,160)

Amounts reported for governmental activities in the Statement of Activities
 are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense (2,468)

Compensated absences expense is recognized in the Statement of Activities when the liability is incurred. However, for governmental funds the liability and related expenditure is not reported because it has not matured.

(1,158)

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

191,004

Changes in Net Assets of Governmental Activities

\$ 51,218

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Cash Balance
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Property Taxes	\$ 172,500	\$ 172,500	\$ 166,046	\$ (6,454)
State Allocation	9,000	9,000	8,825	(175)
Conservation Grant	110,000	110,000	25,500	(84,500)
Chemical Sales	15,000	15,000	15,186	186
Interest Income	1,195	1,195	973	(222)
Miscellaneous	1,000	1,000	17,561	16,561
Total Revenues	308,695	308,695	234,091	(74,604)
Expenditures				
Personnel Services	119,050	119,050	90,699	28,351
Conservation Programs	180,000	180,000	68,673	111,327
Auto	7,000	7,000	2,287	4,713
Audit	5,500	5,500	5,418	82
Education	5,000	5,000	3,061	1,939
Election	500	500	-	500
Insurance & Bond	1,000	1,000	359	641
Miscellaneous	2,000	2,000	628	1,372
Office & Postage	5,000	5,000	3,399	1,601
Travel & Per Diem	13,500	13,500	4,477	9,023
Workshop Expenses	6,000	6,000	3,618	2,382
Total Expenditures	344,550	344,550	182,619	161,931
Excess (Deficiency) of Revenues Over Expenditures				
	(35,855)	(35,855)	51,472	87,327
Beginning Cash and Investments Balance				
	356,106	356,106	356,106	-
Cash and Investments Balance End of Year				
	\$ 320,251	\$ 320,251	\$ 407,578	\$ 87,327
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 51,472	
Net Change in Property Taxes Receivable			432	
Net Change in Accounts Payable			(1,863)	
Net Change in Accrued Salaries and Benefits			(660)	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ 49,381	

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
 LOAN FUND
 Statement of Revenues, Expenditures, and Changes in Cash Balance
 Budget and Actual (Budgetary Basis)
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Interest & Principal Payments	\$ 150,550	\$ 150,550	\$ 211,939	\$ 61,389
Total Revenues	150,550	150,550	211,939	61,389
Expenditures				
New Loan Issued	-	-	-	-
Debt Service				
Principal	202,500	202,500	191,004	11,496
Interest	-	-	11,268	(11,268)
Total Expenditures	202,500	202,500	202,272	228
Excess (Deficiency) of Revenues Over Expenditures	(51,950)	(51,950)	9,667	61,617
Beginning Cash and Investments Balance	148,614	148,614	148,614	-
Cash and Investments Balance End of Year	\$ 96,664	\$ 96,664	\$ 158,281	\$ 61,617
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 9,667	
Net Change in Interest Receivable			(789)	
Net Change in Notes Receivable			(197,646)	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$(188,768)	

See accompanying notes and independent auditor's report.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Chaves Soil and Water Conservation District (the "District") is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-48 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.

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, 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) sales of chemicals to customers and 2) 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.

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.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 District 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, grants, 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 District. The District does not have the information regarding the uncollected delinquent property taxes and, thus, has not recorded its share of this receivable as called for by GASB Statement 33.

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 loan fund is a special revenue fund that accounts for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue fund 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 to lend funds to landowners in the District to finance conservation projects on their property pursuant to the provisions of Section 72-14-20 NMSA 1978.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

As a general rule, the effect of the 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 District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Temporary Investments: The District's cash consists of demand deposits. Temporary investments include certificates of deposits with interest rates ranging from 0.14% to 0.25% and original maturities of twelve months or less.

Taxes Receivable: 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 County Treasurer and are remitted to the District in the month following collection.

Inventory: The District's inventory consists of chemicals held for sale and/or use by the District for brush control. Inventory is reported at cost in the governmental activities column in the government-wide financial statements determined using the first-in, first-out method. Inventory items are reported in governmental funds as expenditures when purchased. In addition, an asset and corresponding nonspendable fund balance is reported in the governmental funds balance sheet for inventory.

Investments: Investments include a certificate of deposit with an interest rate of 0.293% and original maturity of twenty-four months.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Capital assets, which include property, equipment (including software), farm equipment, and furniture, 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 District 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.

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

Vehicles	10 years
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Accounts Payable: The accounts payable as of the balance sheet date includes routine monthly bills for services rendered and products purchased, which are paid in the following month.

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 District 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 have matured, for example, as a result of resignations and retirements. According to the District's policy, employees accrue annual leave at the beginning of each pay period based on years of service with the district and 4 hours of sick leave per pay period. Employees with less than 3 years of service accrue annual leave at 4 hours per pay period. Employees with 3 years of service, but less than 15 years accrue 6 hours per pay period, plus 4 hours for the last complete pay period of the calendar year. Employees with 15 years of service or more accrue 8 hours per pay period.

Loans Payable: The District entered into numerous loan agreements with the New Mexico Interstate Stream Commission for the purpose of lending funds to landowners in the District for water conservation projects. The loan agreements are for twenty years at an interest rate of 2 ½ percent per annum.

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, restricted for the loan program, and unrestricted net assets. 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. A portion of the fund balance has been reserved for the loan program. The loan program resources have been classified as restricted assets on the Statement of Net Assets because their use is restricted by the lender.

NOTE B — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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 expenditures budget for the fiscal year beginning July 1.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
 Notes to Financial Statements
 June 30, 2012

NOTE B — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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. There were no changes made to the budget during the fiscal year. Encumbrance accounting is not utilized by the District.

Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial Statements: Each individual Statement of Revenues, Expenditures, and Changes in Cash Balance – Budget and Actual, is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budgetary basis and Generally Accepted Accounting Principles (GAAP) basis are that:

- A. Revenues are recorded when received in cash (budgetary basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budgetary basis) as opposed to when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budgetary basis for the governmental funds are presented on each individual Statement of Revenues, Expenditures, and Changes in Cash Balance – Budget and Actual (Budgetary Basis).

Reconciliations are located at the bottom of each statement.

NOTE C — CASH AND INVESTMENTS

	Account Type	Bank Balance 06/30/12	Reconciled Balance 06/30/12
First American Bank			
Chaves SWCD-Cost Share Account	A-1 Money Fund	\$ 53,144	\$ 53,144
Chaves SWCD-Cost Share Account	NOW Checking	4,352	4,352
Chaves SWCD-Cost Share CD	CD	28,911	28,911
		<u>86,407</u>	<u>\$ 86,407</u>
	Less: FDIC coverage	(86,407)	
	Amount uninsured	<u>\$ -</u>	
	Account Type	Bank Balance 06/30/12	Reconciled Balance 06/30/12
Valley Bank of Commerce			
Chaves SWCD-General Account	NOW	\$ 68,155	\$ 63,902
Chaves SWCD-Loan Account	NOW	117,777	117,777
Chaves SWCD-Noxious Weed Account	Money Market	77,238	72,193
		<u>263,170</u>	<u>\$ 253,872</u>
	Less: FDIC coverage	(250,000)	
	Amount uninsured	<u>\$ 13,170</u>	

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE C — CASH AND INVESTMENTS (Continued)

	Account Type	Bank Balance 06/30/12	Reconciled Balance 06/30/12
The James Polk Stone Community Bank			
Chaves SWCD-Brush Control CD	CD	\$ 29,046	\$ 29,046
	Less: FDIC coverage	(29,046)	
	Amount uninsured	\$ -	
	Account Type	Bank Balance 06/30/12	Reconciled Balance 06/30/12
Pioneer Bank			
Chaves SWCD-Brush Control Account	Checking	\$ 68,827	\$ 59,450
Chaves SWCD-CD	CD	9,117	9,117
Chaves SWCD-Loan Account CD	CD	40,504	40,504
Chaves SWCD-General CD	CD	87,463	87,463
		205,911	\$ 196,534
	Less: FDIC coverage	(205,911)	
	Amount uninsured	\$ -	

The difference between the bank balance and the reconciled balance is outstanding deposits, outstanding checks, and pending bank adjustments.

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, 2012, \$13,170 of the District's bank balances was exposed to custodial credit risk.

NOTE D — CAPITAL ASSETS

	Beginning Balance 06/30/11	Additions	Deletions	Ending Balance 06/30/12
Capital Assets, Being Depreciated				
Equipment	\$ 2,081	\$ -	\$ -	\$ 2,081
Vehicles	24,677	-	-	24,677
Total Capital Assets, Being Depreciated	26,758	-	-	26,758
Less: Accumulated Depreciation				
Equipment	2,081	-	-	2,081
Vehicles	6,364	2,468	-	8,832
Total Accumulated Depreciation	8,445	2,468	-	10,913
	\$ 18,313	\$ (2,468)	\$ -	\$ 15,845

Depreciation expense was charged to governmental activities as follows:

Conservation Programs	\$ 2,468
Total Depreciation Expense	\$ 2,468

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 June 30, 2012

NOTE E — LONG-TERM DEBT

A summary of activity in the long-term debt is as follows:

	Beginning Balance 06/30/11	Reductions	Ending Balance 06/30/12	Amounts Due Within One Year
Loans Payable	\$ <u>551,233</u>	\$ <u>191,004</u>	\$ <u>360,229</u>	\$ <u>27,879</u>

Payments on the loans are made by the Loan Fund.

The District has entered into the following loans with the New Mexico Interstate Stream Commission for the purpose of lending funds to landowners in the District for water conservation projects:

Date of Loan	Original Amount	Interest Rate	Years	Balance
November 21, 2002	380,000	2.50%	20	\$ 231,918
February 19, 2004	195,000	2.50%	20	128,311
				<u>\$ 360,229</u>

The debt service requirements to maturity are as follows:

	Principal	Interest	Total
2013	\$ 27,879	\$ 9,006	\$ 36,885
2014	28,576	8,309	36,885
2015	29,290	7,594	36,884
2016	30,023	6,862	36,885
2017	30,773	6,112	36,885
2018-2022	165,797	18,625	184,422
2023-2024	47,891	1,502	49,393
	<u>\$ 360,229</u>	<u>\$ 58,010</u>	<u>\$ 418,239</u>

NOTE F — COMPENSATED ABSENCES

	Beginning Balance 06/30/11	Increases	Reductions	Ending Balance 06/30/12
Compensated Absences	\$ <u>5,328</u>	\$ <u>6,196</u>	\$ <u>5,038</u>	\$ <u>6,486</u>

The compensated absences liability is liquidated by the General Fund.

NOTE G — EMPLOYEE BENEFITS

Plan Description: Both of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2012

NOTE G — EMPLOYEE BENEFITS (Continued)

Funding Policy: Plan members are required to contribute 7% of their gross salary. The District is required to contribute 7% of the gross covered salary. The contribution requirements of plan members and the District are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the fiscal years ending June 30, 2012, 2011, and 2010 were \$5,506, \$5,280, and \$4,946, respectively, which equal the amount of required contributions for each fiscal year.

NOTE H — 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 fidelity bond on behalf of persons responsible for District assets. The District currently maintains a \$100,000 fidelity bond on its employees and Board of Supervisors. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

NOTE I — 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 District expects such amounts, if any, to be immaterial.

NOTE J — RELATED PARTY TRANSACTIONS

The administrative assistant's husband obtained a cost share loan from the District to finance a center pivot that has an EQIP contract for the Perry Toles Farm. The loan is for \$28,600 over 10 years, at an interest rate of 3.5% dated January 10, 2006. The loan was approved by the Board of Supervisors in the same manner as other cost share loan projects are approved.

One of the District's board members obtained a cost share loan from the District to finance an irrigation pipe and sprinkler system. The loan is for \$168,557 over 10 years, at an interest rate of 3.5% dated February 1, 2010. The loan was approved by the Board of Supervisors in the same manner as other cost share loan projects are approved.

Another one of the District's board members obtained a cost share loan from the District to finance an irrigation pipe and sprinkler system. The loan is for \$60,000 over 10 years, at an interest rate of 3.5% dated March 1, 2004. The loan was approved by the Board of Supervisors in the same manner as other cost share loan projects are approved.

NOTE K — PRIOR PERIOD ADJUSTMENT

Inventory of \$17,098 and compensated absences of \$5,328 were not recorded in the prior year government-wide statement of net assets. A net adjustment of \$11,770 was made in the current year to increase net assets for these amounts. Inventory of \$17,098 was not recorded in the prior year governmental funds balance sheet. An adjustment of \$17,098 was made in the current year to increase nonspendable fund balance for this amount.



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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. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the Chaves Soil and Water Conservation District

We have audited the financial statements of the governmental activities, each major fund, and the budgetary comparison for the General Fund and the Loan Fund of the Chaves Soil and Water Conservation District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 28, 2012. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 12-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 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 item 12-1.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Supervisors, the New Mexico State Legislature and its committees, the Office of the State Auditor, the New Mexico Department of Finance and Administration, Local Government Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Barr & Company, L.L.P.
Roswell, NM
November 28, 2012

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
Schedule of Findings and Responses
June 30, 2012

Prior Year Audit Findings

	<u>Status</u>
10-2 Stale Dated Transactions	Resolved
11-1 941 Payroll Tax Reports	Resolved

Current Year Audit Findings

12-1 Preparation of Financial Statements-Compliance and Internal Control-Significant Deficiency

Condition

The financial statements and related disclosures are not being prepared by the District.

Criteria

Paragraph (2) of Subsection J of 2.2.2.8 NMAC states "the agency shall...prepare financial statements in accordance with accounting principles generally accepted in the United States of America." According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 115, a system of internal control over financial reporting extends beyond the general ledger. Well designed systems include controls over financial statement preparation, including footnote disclosures.

Cause

The District's management does not have the training in understanding the elements of external financial reporting, including the preparation of the financial statements and the note disclosures.

Effect

When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented, and operating effectively, an entity's ability to prevent or detect a misstatement in its' financial statements is impaired.

Recommendation

We recommend management receive training on understanding the requirements of external financial reporting. The training should include, but not be limited to:

1. Selection of appropriate accounting policies
2. Understanding the financial reporting entity
3. Notes to financial statements
4. Supplementary information required by the Office of the State Auditor

Response

We agree with the auditors' comments and the following action will be taken to improve the situation: We will train management on understanding the requirements of external financial reporting. We will follow the recommendations of Finding 12-1, Preparation of Financial Statements, as provided by the auditors.

Financial Statement Preparation

The Financial statements were prepared by Barr & Company, LLP. However, they are the responsibility of management.

Exit Conference

An exit conference was held on November 28, 2012. Those present were: Leroy Lang, Secretary/Treasurer, Joy Wagner, Administrative Assistant, Kelli Van Winkle, Noxious Weed Coordinator, Judith Clarke, CPA, Manager, and Cody Barrett, CPA, Senior Auditor.