

STATE OF NEW MEXICO

CHAVES

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2006

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STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Doug Whitney	Chairperson
Anthony Treat	Vice-Chairperson
LeRoy Lang	Secretary/Treasurer
W. E. (Bill) Bonham	Supervisor
John Sisk	Supervisor
Aubrey Dunn Jr.	Supervisor
Jerry Vaz	Supervisor
<u>District Personnel</u>	<u>Title</u>
Joy Wagner	Administrative Assistant



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. Doug Whiney, Chairperson
and Members of the Board of Supervisors
Chaves Soil and Water Conservation District
1011 South Atkinson
Roswell, New Mexico 88201

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Chaves 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 general and special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis required by *GASB Statement No. 34* that the Governmental Accounting Standards Board has

determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 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

March 23, 2007

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

Exhibit 1

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 350,062
Accounts receivable	754
Interest receivable	1,616
Notes receivable	632,497
Capital assets	-
Total assets	984,929
Liabilities	
Accounts payable	1,599
Accrued payroll	1,876
Compensated absences	4,834
Noncurrent liabilities:	
Due within one year	36,659
Due in more than one year	716,466
Total liabilities	761,434
Net Assets	
Investment in capital assets	-
Restricted for conservation loans	-
Unrestricted	223,495
Total net assets	\$ 223,495

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

STATE OF NEW MEXICO
 CHAVES SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	
Salary	\$ 39,502
Fringe benefits	5,208
Employee insurance	4,172
Dues and subscriptions	400
Office supplies and equipment	4,205
Bonding	225
Election	203
Information and education	725
Travel	2,681
Workshops and meetings	641
Brush control	59,004
Noxious weed control materials	5,081
Cost share program	27,001
Interest	19,722
Miscellaneous	324
Total program expenses	<u>169,094</u>
Program Revenues:	
Charges for services	<u>48,713</u>
Total program revenues	<u>48,713</u>
Net program (expenses) revenues	<u>(120,381)</u>
General Revenues:	
NMDA allotment	9,944
Property taxes - Chaves County	101,732
Property taxes - Lincoln County	1,653
Noxious Weed - State Grant	6,963
Interest	28,114
Miscellaneous	267
Total general revenues	<u>148,673</u>
Change in net assets	28,292
Net assets - beginning	<u>195,203</u>
Net assets - ending	<u><u>\$ 223,495</u></u>

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

STATE OF NEW MEXICO
 CHAVES SOIL AND WATER CONSERVATION DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2006

Exhibit 3

	<u>General Fund</u>	<u>Loan Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 214,091	\$ 135,971	\$ 350,062
Accounts receivable	754	-	754
Interest receivable	1,155	461	1,616
Notes receivable	-	632,497	632,497
Total assets	<u>\$ 216,000</u>	<u>\$ 768,929</u>	<u>\$ 984,929</u>
Liabilities and Fund balances			
Liabilities:			
Accounts payable	\$ 1,599	-	\$ 1,599
Accrued payroll	1,876	-	1,876
Compensated absences	1,455	-	1,455
Total liabilities	<u>4,930</u>	<u>-</u>	<u>4,930</u>
Fund balances:			
Reserved for loans	-	15,804	15,804
Reserved for debt service	-	753,125	753,125
Unreserved, undesignated	211,070	-	211,070
Total fund balances	<u>211,070</u>	<u>768,929</u>	<u>979,999</u>
Total liabilities and fund balances	<u>\$ 216,000</u>	<u>\$ 768,929</u>	<u>\$ 984,929</u>

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

STATE OF NEW MEXICO
CHAVES 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, 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)	\$ 981,454
Capital assets, net of accumulated depreciation	-
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Noncurrent liabilities:	
due within one year	(41,493)
due in more than one year	<u>(716,466)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u>\$ 223,495</u>

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

STATE OF NEW MEXICO
 CHAVES 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

	General Fund	Loan Fund	Total
Revenues			
State allocation	\$ 9,944	-	\$ 9,944
Property taxes - Chaves County	101,732	-	101,732
Property taxes - Lincoln County	1,653	-	1,653
Brush Control - chemical sales	48,713	-	48,713
Noxious Weed - state grant	6,963	-	6,963
Interest income	3,305	24,809	28,114
Miscellaneous	267	-	267
Total revenues	172,577	24,809	197,386
Expenditures			
Conservation:			
Current:			
Salary	39,502	-	39,502
Fringe benefits	5,208	-	5,208
Employee insurance	4,172	-	4,172
Dues and subscriptions	400	-	400
Office supplies and equipment	4,205	-	4,205
Bonding	225	-	225
Information and education	725	-	725
Travel and per diem	2,681	-	2,681
Election	203	-	203
Workshops and meetings	641	-	641
Brush control	59,004	-	59,004
Noxious weed control materials	5,081	-	5,081
Cost share program	27,001	-	27,001
Miscellaneous	324	-	324
Debt Service:			
Principal payments	-	35,765	35,765
Interest payment	-	19,722	19,722
Total expenditures	149,372	55,487	204,859
Net change in fund balances	23,205	(30,678)	(7,473)
Fund balance - beginning	187,865	799,607	987,472
Fund balance - ending	\$ 211,070	\$ 768,929	\$ 979,999

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

Loan Fund				
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
200	400	506	106	-
-	-	-	-	-
-	-	-	-	-
60,000	85,000	101,155	16,155	-
<u>\$ 60,200</u>	<u>\$ 85,400</u>	<u>\$ 101,661</u>	<u>\$ 16,261</u>	-
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>60,000</u>	<u>85,000</u>	<u>84,087</u>	<u>913</u>	-
<u>\$ 60,000</u>	<u>\$ 85,000</u>	<u>\$ 84,087</u>	<u>\$ 913</u>	-

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

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Chaves 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 is required to implement GASB Statement No. 40, *Deposit and Investment Risk Disclosures* in fiscal year 2005. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-wide and Fund Financial Statements

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

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase chemical herbicides and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The District received no grants and contributions during this fiscal year. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

measurable and available only when cash is received by the government. 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 (NMISC) to lend landowners in the District funds at low interest rates 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 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 and Cash Equivalents

The District's cash and cash equivalents consist of demand deposit accounts, money market accounts, savings accounts and short term investments (certificates of deposit) with original maturities of six months or less from the date of acquisition.

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

State statutes authorize the District to invest in obligations of the U.S. Treasury, repurchase agreements, and certificates of deposit. Investments for the government, if applicable, are reported at fair value.

2. Receivables and Payables

Accounts receivable consists of property taxes which are fully collectible.

Property taxes attach as 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 Chaves County Treasurer and Lincoln County Treasurer and are remitted to the District in the month following collection.

The District's accounts payable represent routine monthly bills for services rendered and products purchased and received in the current year but not paid for until after fiscal year-end.

3. Notes Receivable

The District's note receivable balance as of June 30, 2006 represents monies owed to the District by landowners under the low-interest loan program for water conservation projects. The loan agreements between the District and its landowners are secured by a duly recorded mortgage or other legal encumbrance on the property, real or personal, of the landowner. The District considers the loans to be fully collectible and does not consider that an allowance for doubtful accounts is necessary at June 30, 2006.

4. Capital Assets

Capital assets, which include property, 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 \$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 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 has no infrastructure for the fiscal year.

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

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Farm Equipment	7 years
Computer equipment	5 years

5. 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 have matured, for example, as a result of resignations and retirements. According to District policy, employees accrue annual leave at 4 hours per pay period and 4 hours of sick leave per pay period.

6. Notes 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.

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 two components – unrestricted net assets and restricted net assets which include certain proceeds (Low Interest Loan from New Mexico Interstate Stream Commission), as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by agreement with the Interstate Stream Commission. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are reserved for repayments to the Interstate Stream Commission.

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

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

	General Fund	Loan Fund
Non-GAAP revenues (Exhibit 5)	\$ 171,365	\$ 101,661
Prior year receivables	(697)	-
Current year receivables	1,909	461
Current year loan proceed reclassification	-	(77,313)
GAAP revenues (Exhibit 4)	<u>\$ 172,577</u>	<u>\$ 24,809</u>
Non-GAAP expenditures (Exhibit 5)	\$ 146,701	\$ 84,087
Prior year payroll accrual	(804)	-
Current year payroll accrual	1,876	-
Current year accounts payable	1,599	-
Current year loan reclassification	-	(28,600)
GAAP expenditures (Exhibit 4)	<u>\$ 149,372</u>	<u>\$ 55,487</u>

III. Detailed Notes on all Funds

A. Cash and Cash Equivalents

As of June 30, 2006, the District had a carrying amount of deposits of \$350,062. The bank balances for deposits is \$341,944. The difference between the carrying amount and the bank balance of deposits is due to deposits in transit of \$16,834 and outstanding checks of \$8,716. The bank balance consists of:

<u>The Valley Bank of Commerce</u>	
Demand deposits	\$ 144,508
Less: FDIC coverage	<u>(100,000)</u>
Amount uninsured	<u>\$ 44,508</u>
50% collateral requirement	\$ 22,254
Pledged securities at par value	<u>225,000</u>
Over (Under) Collateralized	<u>\$ 202,746</u>

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

The following is a description of the pledged collateral that is held under joint safekeeping receipts in the name of the District at the Independent Bankers Bank in Dallas, TX, Rio Rancho NM ISD #94, CUSIP #767171FT3, 4% rate, and a maturity date of 8/01/2008.

<u>First Federal Bank</u>	
Demand Deposits	\$ 37,370
Less: FDIC coverage	<u>(37,370)</u>
Uninsured balance	<u>\$ -0-</u>
<u>First Federal Bank</u>	
Money Market	\$ 50,833
Less: FDIC coverage	<u>(50,833)</u>
Uninsured balance	<u>\$ -0-</u>
<u>First National Bank</u>	
Demand Deposits	\$ 10,359
Less: FDIC coverage	<u>(10,359)</u>
Uninsured balance	<u>\$ -0-</u>
<u>First National Bank</u>	
Time Deposits	\$ 25,000
Money Market	40,973
Less: FDIC coverage	<u>(65,973)</u>
Uninsured balance	<u>\$ -0-</u>
<u>Pioneer Bank</u>	
Certificate of Deposit	\$ 7,901
Less: FDIC coverage	<u>(7,901)</u>
Uninsured balance	<u>\$ -0-</u>
<u>Roswell National Bank</u>	
Certificate of Deposit	\$ 25,000
Less: FDIC coverage	<u>(25,000)</u>
Uninsured balance	<u>\$ -0-</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

government does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$-0- of the government's bank balance of \$341,944 was exposed to custodial credit risk. All of the District's deposits were insured by FDIC or were collateralized by securities held by the District's agent in the District's name.

B. Capital Assets

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

Description	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Governmental activities:				
Capital assets:				
Computer equipment	\$ 2,081	\$ -	\$ -	\$ 2,081
<i>Capital assets, historical cost:</i>	<u>2,081</u>	<u>-</u>	<u>-</u>	<u>2,081</u>
Less: Accumulated depreciation:				
Computer equipment	(2,081)	-	-	(2,081)
<i>Accumulated Depreciation</i>	<u>(2,081)</u>	<u>-</u>	<u>-</u>	<u>(2,081)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

C. Long-Term Debt

Note Payable

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on March 31, 1999 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan	\$ 20,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 1,283

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
07-01-07	\$ 931	\$ 352

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

07-01-08	954	329
07-01-09	978	305
07-01-10	1,002	281
07-01-11	1,027	256
2012-2016	5,535	880
2017-2019	<u>3,664</u>	<u>185</u>
Total	<u>\$ 14,091</u>	<u>\$ 2,588</u>

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on August 29, 2002 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan	\$ 20,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 1,283

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
07-01-07	\$ 886	\$ 397
07-01-08	908	375
07-01-09	931	352
07-01-10	954	329
07-01-11	978	305
2012-2016	5,268	1,147
2017-2021	<u>5,960</u>	<u>454</u>
Total	<u>\$ 15,885</u>	<u>\$ 3,360</u>

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on September 10, 2002 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan	\$ 250,000
Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 16,037

The debt service requirements to maturity are as follows:

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Due Date	Principal	Interest
07-01-07	\$ 10,803	\$ 5,234
07-01-08	11,073	4,964
07-01-09	11,350	4,687
07-01-10	11,633	4,403
07-01-11	11,924	4,113
2012-2016	64,245	15,939
2017-2021	72,687	7,497
2022	<u>15,646</u>	<u>391</u>
Total	<u>\$209,361</u>	<u>\$47,228</u>

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on October 28, 2002 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan \$ 380,000
Interest 2 ½ percent per annum
Years 20 (Twenty years)
Yearly payment \$ 24,376

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
06-30-07	\$ 16,020	\$ 8,356
06-30-08	16,420	7,956
06-30-09	16,831	7,545
06-30-10	17,251	7,124
06-30-11	17,683	6,693
2012-2016	95,270	26,609
2017-2021	107,789	14,090
2022-2023	<u>46,983</u>	<u>1,769</u>
Total	<u>\$334,247</u>	<u>\$80,142</u>

The District entered into a loan agreement with the New Mexico Interstate Stream Commission on September, 24 2003 for the purpose of lending funds to landowners in the District for water conservation projects. The terms of the agreement are as follows:

Amount of loan \$ 195,000

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Interest	2 ½ percent per annum
Years	20 (Twenty years)
Yearly payment	\$ 12,509

The debt service requirements to maturity are as follows:

Due Date	Principal	Interest
06-30-07	\$ 8,020	\$ 4,489
06-30-08	8,221	4,288
06-30-09	8,426	4,083
06-30-10	8,637	3,872
06-30-11	8,853	3,656
2012-2016	47,696	14,847
2017-2021	53,964	8,580
2022-2024	35,725	1,801
Total	<u>\$179,542</u>	<u>\$45,616</u>

Changes in Long-term Liabilities

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

	Balance 6/30/05	Increases	Decreases	Balance 6/30/06	Amount due within 1 year
Note payable	\$ 788,889	\$ -	\$ (35,764)	\$ 753,125	\$ 36,659
Compensated absences	3,380	4,004	(2,550)	4,834	4,834
Totals	<u>\$ 792,269</u>	<u>\$ 4,004</u>	<u>\$ (38,314)</u>	<u>\$ 757,959</u>	<u>\$ 41,493</u>

Compensated absences are generally liquidated by the general fund.

IV. Other Information

A. Employee Retirement Benefits

Plan Description. Substantially all of the District's full time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public

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Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides retirement, disability and 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. The report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 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 Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ended June 30, 2006, 2005, and 2004 are \$2,589, \$2,411, and \$2,178 respectively, equal to the amount of required contributions each year.

B. Other Employee Benefits

The District does not offer a deferred compensation plan or post-employment benefits to its employees.

C. 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 \$100,000 fidelity bond on its supervisors and employee. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

D. 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.

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NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2006

E. Related Party Transactions

The District Clerk's husband obtained a cost share loan from the District to finance the irrigation pipe. The note is for \$2,500 over 10 years, at an interest rate of 3.5% dated February 2, 2002. 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 of Supervisors obtained a cost share loan from the District to finance the irrigation pipe and sprinkler system. The note 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.

The District Clerk's husband obtained a cost share loan from the District to finance a center pivot that has an EQUIP contract for the Perry Toles Farm. The note is for \$28,600 over 10 years, at an interest rate of 3.5% dated January 15, 2006. The loan was approved by the Board of Supervisors in the same manner as other cost share loan projects are approved.

F. Joint Powers Agreement -- Pecos River Salt Cedar Control 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 Pecos River Basin. As a result of this appropriation, a joint powers agreement was established for this project. The terms of the agreement are summarized as follows:

Date of agreement:	June 24, 2002
Participants:	New Mexico Association of Conservation Districts and the Carlsbad, Chaves, Central Valley, Hagerman-Dexter, DeBaca, Penasco, Guadalupe, Upper Hondo, and Tierra Y Montes Soil and Water Conservation Districts
Responsible party for operations:	Carlsbad Soil and Water Conservation District
Description:	Pecos River Salt Cedar Control Project
Beginning and ending date of agreement:	Original agreement: July 1, 2002 to June 30, 2004 Extension of original agreement (with some revision): July 1, 2004 until the funding or recourses cease.
Total estimated amount:	\$4,506,666

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Amount expended to date:	\$4,356,168
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	Carlsbad Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	New Mexico State University



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. Doug Whiney, Chairperson
and Members of the Board of Supervisors
Chaves Soil and Water Conservation District
1101 South Atkinson
Roswell, New Mexico 88201

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Chaves Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated March 23, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 errors 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 New Mexico Department of Finance and Administration, and the state legislature and grantors and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

March 23, 2007

STATE OF NEW MEXICO
CHAVES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

05-01. Actual Expenditures Exceeded the Approved Budget – Resolved.

CURRENT YEAR AUDIT FINDINGS

None.

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 March 23, 2007, an exit conference was held at the District Office with Doug Whitney, Chairperson and Joy Wagner, Administrative Assistant of the Chaves Soil and Water Conservation District. Representing the Office of the State Auditor was Rosemary Whitegeese, Audit Supervisor.