

STATE OF NEW MEXICO
CUBA
SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2006

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STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Steve Lucero	Chairman
James Montoya	Vice-Chairman
Don Walker	Secretary/Treasurer
Emmett Cart	Supervisor
Betty Jane Curry	Supervisor
Timothy Johnson	Supervisor
L.D. Schmitz	Supervisor
<u>District Personnel</u>	<u>Title</u>
Peggy Ohler	District Clerk
Mike Chavez	Weed Program Coordinator
Filiberto Aragon	Weed Technician



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. James Montoya, Chairperson
and Members of the Board of Supervisors
Cuba Soil and Water Conservation District
P.O. Box 250
Cuba, New Mexico 87013

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Cuba 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 the general fund of the District as of June 30, 2006, 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 June 7, 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

June 7, 2007

STATE OF NEW MEXICO
 CUBA SOIL & WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2006

Exhibit 1

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 59,057
Accounts receivable	90,233
Inventory	15,663
Capital assets, net	5,969
Total assets	170,922
Liabilities	
Accounts payable	7,450
Accrued payroll	2,442
Compensated absences	613
Total liabilities	10,505
Net Assets	
Invested in capital assets	5,969
Unrestricted	154,448
Total net assets	\$ 160,417

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

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

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	
Conservation Projects	\$ 27,283
Conservation Education	519
Forestry/Camp Fund Expenses	4,932
Weed Program	16,874
RPMC expenses	173,919
Personnel Services	72,155
Administrative	8,162
Operational	10,795
Depreciation	2,143
Total program expenses	316,782
Program Revenues:	
Operating grants:	
Rio Puerco Project Management grant - BLM	162,127
Weed program grant - ENMRD	30,798
Charges for services:	
Grant administration fees	6,233
Forestry camp- Registration & tuition	2,701
Miscellaneous sales-conservation supplies	1,425
Total program revenues	203,284
Net program (expense) revenue	(113,498)
General Revenues:	
NMDA allotment	9,944
Property Taxes	113,475
Interest	182
Total general revenues	123,601
Change in net assets	10,103
Net assets at beginning of year	165,814
Restatement	(15,500)
Net assets - as restated	150,314
Net assets at end of year	\$ 160,417

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

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

	General Fund
Assets	
Cash and cash equivalents	\$ 59,057
Accounts receivable	90,233
Inventory	15,663
Total assets	<u>\$ 164,953</u>
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 7,450
Accrued payroll	2,442
Deferred revenue	85,738
Total liabilities	<u>95,630</u>
Fund balance:	
Reserved for Forest Camp	5,319
Reserved for Forest Camp Inventory	450
Reserved for Operational Inventory	15,212
Reserved for Scholarships	7,227
Unreserved, undesignated	41,115
Total fund balance	<u>69,323</u>
Total liabilities and fund balance	<u>\$ 164,953</u>

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

STATE OF NEW MEXICO
 CUBA SOIL & 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)	\$ 69,323
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Capital assets, net of accumulated depreciation as of 6/30/06	5,969
Some long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in governmental funds:	
Deferred revenue	85,738
Some liabilities are not due and payable in the current period and, therefore are not reported in the governmental funds:	
Compensated absences	<u>(613)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u>\$ 160,417</u>

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

STATE OF NEW MEXICO
 CUBA SOIL & WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>
Revenues	
State allotment	\$ 9,944
Property taxes - Sandoval County	72,341
Property taxes - Rio Arriba County	41,134
Operating grants:	-
Rio Puerco management grant - BLM	89,564
Weed Program Grant - ENMRD	21,695
Grant administration fees	2,160
Miscellaneous - sales	1,425
Interest income	182
Donations/tuition/sales-forestry	1,431
Registration - forestry	1,270
Total revenues	<u>241,146</u>
Expenditures	
Conservation:	
Current:	
Conservation projects	27,283
Forestry camp	4,932
Administration	8,162
RPMC expenses	173,919
Operational expenses	10,795
Conservation education	519
Personnel services	72,477
Weed program	16,874
Total expenditures	<u>314,961</u>
Net change in fund balance	(73,815)
Fund balance at beginning of year	158,638
Restatement	(15,500)
Fund balance - beginning of year as restated	<u>143,138</u>
Fund balance end of year	<u><u>\$ 69,323</u></u>

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

STATE OF NEW MEXICO
 CUBA SOIL & WATER CONSERVATION DISTRICT
 RECONCILIATION OF THE STATEMENT OF ACTIVITIES-GOVERNMENTAL FUNDS
 TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES BALANCES
 IN FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balance - Governmental Funds (Exhibit 4) \$ (73,815)

Amounts reported in the Statement of Activities are different because:

In Statement of Activities, the revenues are measured on a full accrual basis; however, in governmental funds, the revenue not available within 60 days of the end of the fiscal year, is reported as deferred revenue. 85,738

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: 323

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. The depreciation expense for the fiscal year was:

Depreciation expense (2,143)

Change in net assets - Statement of Activities (Exhibit 2) \$ 10,103

STATE OF NEW MEXICO
 CUBA 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, 2006

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
State allocation	\$ 9,700	\$ 9,700	\$ 9,944	\$ 244
Property taxes - Sandoval County	65,000	65,000	70,481	5,481
Property taxes - Rio Arriba County	33,000	33,000	41,071	8,071
Miscellaneous sales	200	200	4,712	4,512
Interest income	75	75	144	69
Grant administration fees - RPMC	15,000	15,000	2,161	(12,839)
Accounts receivable	7,000	7,000	-	(7,000)
Rio Puerco management committee grant	150,000	150,000	108,227	(41,773)
Weed program grant	47,000	47,000	60,794	13,794
Water fair grant	5,000	5,000	-	(5,000)
Grant administration	3,100	3,100	-	(3,100)
Donations/Tuition - forestry	13,000	13,000	1,395	(11,605)
Registration-forestry	1,200	1,200	1,270	70
Sales-Forestry	150	150	36	(114)
Sales-scholarship fund	500	500	-	(500)
Interest-scholarship fund	50	50	38	(12)
Total revenues	<u>349,975</u>	<u>349,975</u>	<u>300,273</u>	<u>\$ (49,702)</u>
Cash balance budgeted	17,984	17,984		
Total revenues and cash balance budgeted	<u>\$ 367,959</u>	<u>\$ 367,959</u>		
Expenditures				
Current:				
Conservation projects	\$ 58,500	\$ 58,500	\$ 39,293	\$ 19,207
Rio Puerco management committee expense	150,000	150,000	169,097	(19,097)
Conservation education	4,350	4,350	519	3,831
Personnel services	58,159	58,159	70,927	(12,768)
Administrative expense	17,900	17,900	10,062	7,838
Operational expense	8,410	8,410	10,748	(2,338)
Capital outlay	3,000	3,000	-	3,000
Weed program	30,000	30,000	21,062	8,938
Rio Puerco project	10,000	10,000	-	10,000
Water fair	5,000	5,000	-	5,000
Outdoor classroom	3,800	3,800	-	3,800
Forestry camp expense	16,340	16,340	5,587	10,753
Scholarships	2,500	2,500	-	2,500
Total expenditures	<u>\$ 367,959</u>	<u>\$ 367,959</u>	<u>\$ 327,295</u>	<u>\$ 40,664</u>

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

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Cuba 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 reporting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment such as registration and tuition fees to attend the forestry camp, grant administration fees and sales of conservation supplies and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment such as Rio Puerco Project management grant and Weed Program grant from the BLM. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds.

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

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

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

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

The District reports the following major governmental funds:

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

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 deposits and non-negotiable (certificates of deposit) with original maturities of one year or less from the date of acquisition.

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

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 Sandoval County and Rio Arriba Treasurer and are remitted to the District in the month following collection.

Accrued payroll of \$2,442 includes wages and payroll tax liabilities accrued as of June 30, 2006, but not paid for until after fiscal year-end. Similarly, accounts payable of \$7,450 includes goods and services received by the District by June 30, 2006, but not paid for until after fiscal year-end.

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchases.

4. Restricted Assets

Certain proceeds, such as grants for soil and water conservation, are classified as restricted assets on the balance sheet because their use is limited by applicable grant agreements.

5. 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 \$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.

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

Portable Building	10 years
Vehicles	3 years
Computer equipment	5 years
Furniture	5 years
Land Health Kiosk	5 years

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 have matured, for example, as a result of resignations and retirements.

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

According to District policy, employees accrue leave at 4 hours per pay period. Employees may not carry more than 96 hours forward from one calendar year to the next, prior to June 22, 1990. Employees hired after November 12, 2003 accrue leave at 3.75 hours per period. Employees may not carry more than 80 hours forward from one calendar year to the next.

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 nets assets, and restricted net assets- wherein the constrains are placed on net asset use either by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund balance as reported in Exhibit 3 represents assets less liabilities of the governmental fund. The general fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The District currently has reservations for scholarships in accordance with donor restrictions, Forest Camp, and for operational and forest camp related inventory.

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's 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

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

	Fund
Non-GAAP revenues (Exhibit 5)	\$ 300,273
Less prior year receivables - Restated	(62,859)
Current year receivables	90,233
Less receivables pertaining to refund of expenditures received in subsequent year	(763)
Less deferred revenue	(85,738)
GAAP revenues (Exhibit 4)	\$ 241,146
Non-GAAP expenditures (Exhibit 5)	\$ 327,295
Less prior year payable	(14,939)
Current year payable	9,892
Less expenditures refunded to the District in subsequent year	(763)
Increase in inventory	(6,524)
GAAP expenditures (Exhibit 4)	\$ 314,961

The reconciling item of \$763 is for expenditures for which refunds were received by the District in subsequent fiscal year. The District recorded these transactions on cash basis. However, on GAAP basis, the amounts were recorded as reduction of expenditure and also as receivable.

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 \$59,057. The bank balances for deposits was \$80,939. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$21,882. The total bank balance of \$80,939 consisted of the following:

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

<u>Wells Fargo Bank</u>	
Demand deposits	\$ 64,919
Less: FDIC coverage	<u>(64,919)</u>
Amount uninsured	<u>\$ - 0 -</u>

<u>Wells Fargo Bank</u>	
Demand deposit	\$ 3,793
Less: FDIC coverage	<u>(3,793)</u>
Amount uninsured	<u>\$ - 0 -</u>

<u>Bank of the West</u>	
Certificate of Deposit	\$ 5,000
Less: FDIC coverage	<u>(5,000)</u>
Amount uninsured	<u>\$ - 0 -</u>

<u>Cuba Credit Union</u>	
Certificate of Deposit	\$ 7,227
Less: FDIC coverage	<u>(7,227)</u>
Amount uninsured	<u>\$ - 0 -</u>

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 government does not have a deposit policy for custodial credit risk. As of June 30, 2006, none of the District's bank balance was exposed to custodial credit risk. All of the District's deposits were covered by FDIC insurance.

B. Receivables

Receivables consist of followings.

Rio Arriba County-Property Taxes	\$ 406
Sandoval County-Property Taxes	3,326
Forestry suppliers	588
SNR – Seminar fee	175
BLM	<u>85,738</u>
Total	<u>\$ 90,233</u>

From receivable items listed above, Forestry suppliers and SNR-Seminar fee of \$763 represents expenditure which was refunded to the District in subsequent fiscal year. An allowance for doubtful accounts has not been recorded since all receivables are considered collectible.

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

C. Capital Assets

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

	Balance		Additions	Deletions	Balance
	6/30/05	6/30/06			
Governmental Activities					
Assets being depreciated:					
Portable Building	\$ 3,020	\$ -	-	-	\$ 3,020
Computer Equipment	3,339	-	-	-	3,339
Furniture	1,500	-	-	-	1,500
Vehicles	1,300	-	-	-	1,300
Land Helath Kiosk	7,040	-	-	-	7,040
Totals at historical cost	<u>16,199</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,199</u>
Less accumulated depreciation for:					
Portable Building	(1,334)	(302)	-	-	(1,636)
Computer Equipment	(3,340)	-	-	-	(3,340)
Furniture	(1,500)	-	-	-	(1,500)
Vehicles	(505)	(433)	-	-	(938)
Land Helath Kiosk	(1,408)	(1,408)	-	-	(2,816)
Total accumulated depreciation	<u>(8,087)</u>	<u>(2,143)</u>	<u>-</u>	<u>-</u>	<u>(10,230)</u>
Total Capital Assets, Net	<u>\$ 8,112</u>	<u>\$ (2,143)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,969</u>

D. Long-term Liabilities

Changes in Long-term Liabilities

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

	Balance		Decreases	Balance		Amount due within 1 year
	6/30/05	Increases		6/30/06		
Compensated absences	<u>\$ 936</u>	<u>\$ 4,634</u>	<u>\$ (4,957)</u>	<u>\$ 613</u>	<u>\$ 613</u>	
Totals	<u>\$ 936</u>	<u>\$ 4,634</u>	<u>\$ (4,957)</u>	<u>\$ 613</u>	<u>\$ 613</u>	

Compensated absences are liquidated by the general fund.

STATE OF NEW MEXICO
CUBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 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 \$1,603 \$1,572 and \$1,582 respectively, equal to the amount of required contributions each year.

B. Post-Employment Benefits

The District does not offer a deferred compensation plan or retirement health benefit plan to its employees.

C. Related Party Transactions

The District Clerk is the daughter of a member of the Board of Supervisors. Her original hiring and all subsequent payroll rate adjustments have been approved by the entire Board of supervisors. One of the Board of Supervisors participated in a cost share program, Rio Puerco Management Committee Project, by completing a conservation project on his land and received \$6,000 for it from the District as per the program guidelines. His participation in the project was approved by the Board of Supervisors.

D. Subsequent Event

The District filed a lawsuit in Federal District Court on December 26, 2006 against the State Treasurer and the State of New Mexico to claim their share of oil and gas royalties. The District is obliged to reimburse the attorney for his out of pocket expenses, not exceeding \$10,000, which shall come only from funds



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. James Montoya, Chairperson
and Members of the Board of Supervisors
Cuba Soil and Water Conservation District
P.O. Box 250
Cuba, New Mexico 87013

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Cuba Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated June 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 04-1, 06-1, 06-2, 06-3 and 06-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely

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STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

received by the District as a result of this lawsuit. In addition, if the lawsuit is successful, the District agreed to pay 18% of the funds obtained for a period of seven years commencing the fiscal year such funding is obtained. The District is not obliged to pay any fees and/or reimburse out of pocket expenses to the attorney if the lawsuit fails to secure any funding for the District.

E. 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 \$200,000 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.

F. Restatement

An account receivable item for \$15,500 that was accrued and reported as revenue for the year ending June 30, 2004 was erroneously reported again as revenue in FY 2005. Therefore, the net assets amount of \$165,814 and the fund balance amount of \$158,638 at the beginning of the fiscal year 2006 has been restated to \$150,314 and \$143,138 respectively to correct this error.

G. Note on Contingencies – grants

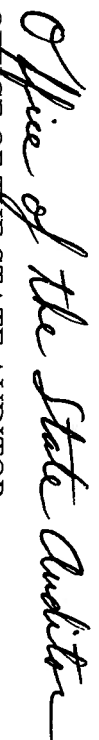
Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the State and Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures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

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, we believe that none of the conditions described above is 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 06-4.

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



OFFICE OF THE STATE AUDITOR
June 7, 2007

STATE OF NEW MEXICO
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SCHEDULE OF FINDING AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 04-1. Understated Revenue & Expenditure-Modified and Repeated.
05-1. Revenues Were Not Properly Classified in the General Ledger-Resolved.

CURRENT YEAR AUDIT FINDINGS

04-1. Understated Revenues & Expenditures (Modified and Repeated)

Condition

The total amounts of deposits and withdrawals per the District's bank statements, net of transfers between the District's bank accounts, do not agree with the total amounts of revenues and expenditures per the District's books; the difference is \$8,585. The total amounts of revenues and expenditures per the District's books as well as the total amounts reported by the District to the DFA-LGD through the quarterly reports are understated by \$8,585.

Criteria

Generally Accepted Accounting Principles (GAAP) requires that total of deposits and withdrawals from bank accounts agree with total of revenues and expenditures respectively. Also, per Operations Handbook for the Soil and Conservation Districts, State of New Mexico; § Financial Records Management, Chapter 2, Quarterly Reports (3), the District is required to submit *accurate* quarterly reports to the DFA-LGD.

Effect

The District is not in compliance with the requirement per Operations Handbook for SWCD by submitting inaccurate quarterly reports to the DFA-LGD. The Board may not be in a position to accurately monitor whether the expenditures are within or exceeds the budgeted amounts.

Cause

In some instances, revenues are recorded in the general ledger as negative expenditures and expenditures are recorded as negative revenues.

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SCHEDULE OF FINDING AND RESPONSES
JUNE 30, 2006

Recommendation

The District needs to stop the practice of recording revenue and expenditure as a negative expenditure and negative revenue respectively. All transactions in the District's books should be recorded in accordance with GAAP.

District's Response

The District implemented the use of QuickBooks accounting software, but the condition continued. In the FY2008 budget, the District created a revenue item for those reimbursement items that were being recorded as negative expense and the District Clerk is working to ensure that they are properly accounted for in QuickBooks.

06-1. Lack of Appropriate Authorization for Expenditures

Condition

Twenty out of sixty-six purchase vouchers did not have an authorized signature on the purchase voucher.

Criteria

The procurement section of the Operations Handbook for Soil and Water Conservation Districts requires documenting an authorized voucher for expenditure. Also, a prudent internal control measure requires that all expenditures are appropriately authorized by the Board.

Effect

Not having the purchase vouchers signed by the Board may result in payments being made for goods or services that weren't received.

Cause

The District implemented QuickBooks in the current fiscal year and did not know how to print vouchers using the new system.

Recommendation

We recommend all purchase vouchers are approved by the Board before payment is made. The District should also certify the goods or services were received before payment is made.

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SCHEDULE OF FINDING AND RESPONSES
JUNE 30, 2006

District's Response

All purchase vouchers are now created prior to printing checks, and are presented to the Board for signature along with checks.

06-2. Payroll Expenditures Not Always Properly Approved or Maintained

Condition

Twelve out of fifty six timesheets were selected by auditors for a review. Out of the twelve timesheets, one timesheet for a two weeks period in the month of September 2005 was missing. None of the remaining eleven timesheets reviewed were signed by the Board.

Criteria

Good accounting practice requires appropriate approval of payroll expenditures. A prudent internal control measure requires appropriate review, approval and retention of timesheets.

Effect

The District has paid personnel without proper approval. The District may have underpaid or overpaid its employee.

Cause

The District was not aware that timesheets are required to be signed by a supervisor. Expenditures are approved monthly at the Board meeting; and it is difficult for numerous expenditure vouchers and timesheets to be reviewed and approved once a month.

Recommendation

The District should ensure that all payroll expenditures are appropriately reviewed and approved by the Board and the documentation thereof is retained.

District's Response

Timesheets will be presented to the Board for verification and signature at the time paychecks are signed.

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SCHEDULE OF FINDING AND RESPONSES
JUNE 30, 2006

06-3. Discrepancies in Bookkeeping

Condition

Effective July 1, 2005, the District implemented QuickBooks, an accounting software to maintain its accounting records, including general ledger. The District Clerk insisted that since not all accounts were set up correctly in the QuickBooks, the quarterly reports sent to the DFA-LGD be used as source for the trial balance rather than a trial balance generated by using QuickBooks. The District Clerk stated that only QuickBooks records were used as a source to prepare the quarterly reports. However, upon a review of the records, it was noted that the line item amounts of revenues and expenditures in quarterly reports did not always agree with line item amounts in QuickBooks. Out of 30 line items reviewed, 19 had discrepancies. The total amount of the discrepancies was \$5,199. The District Clerk could not explain the reason(s) for discrepancies.

Criteria

Good accounting practice requires the trial balance amounts to be used as a source for the financial statements agree to the general ledger totals for all line items.

Effect

The detail financial reports provided to auditors using QuickBooks, to support the quarterly reports, were not reliable. Auditors had to do extensive reconciliation work to verify the trial balance and the District's books and records. Discrepancies between the trial balance and the supporting financial records such as the general ledger could cause errors and misstatements in the financial statements.

Cause

The initial set up of some accounts in QuickBooks was not done correctly. A grant fund revenue account is being set up as an asset account. When payroll liabilities are paid, rather than paying off the liability when the pay check was created, a new expenditure is being added to the payroll line item thereby accumulating fictitious payroll liabilities in QuickBooks. Some revenues were recorded as negative expenditures.

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SCHEDULE OF FINDING AND RESPONSES
JUNE 30, 2006

Recommendation

The District should correct the accounts which were set up incorrectly. If the amounts in monthly and quarterly reports are different than QuickBooks, a reconciliation spreadsheet should be maintained. The District Clerk should be trained to use QuickBooks.

District's Response

The District Clerk has little training in accounting and did not know how to use the accounts and reports in QuickBooks. Also, the clerk did not understand how payroll liabilities work. The clerk has been learning how to use QuickBooks and will correct the account set-up. Payroll liabilities will be reduced when paid.

06-4. Extensive Delays in Billing of Reimbursable Expenses

Condition

The District did not bill the grantors for its reimbursable expenditures in a timely manner. Seven invoices for the total amount of \$85,738 pertaining to work completed between October '05 and June '06 were submitted to the grantors on March 22, 2007, almost nine months after the fiscal year ended.

Criteria

Good accounting practice requires invoices be submitted within a reasonable amount of time, usually 30 days, sufficient to put together supporting documentation. Also, the grantor, a Federal agency in this instance, requires under Federal Regulation 43 CFR, Subpart F, § 12.952 that the recipient submit the SF 270, SF-269 or SF-269-A (Reimbursements bills), no later than 30 days after the end of each specified reporting period for quarterly and semi quarterly reports, and 90 calendar days for annual and final reports.

Effect

The District is not in compliance with federal regulations related to timeliness criteria for submission of bills. Due to unusual delay in submitting the invoices, the grantor could have denied to pay the amount based upon District's non compliance with timely billing. Also, delayed billing and reimbursement hinders the District's cash flow, a critical factor to continue its conservation activities in an effective and efficient manner.

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JUNE 30, 2006

Cause

The District Clerk had not realized the magnitude of amount of pending bills and was not current with billing of reimbursable expenditure in a diligent manner.

Recommendation

The District should bill for reimbursable expenses on a set date every month.

District's Response

During the time clerk was learning to implement QuickBooks, the bookkeeping workload was doubled and the clerk did not know how to use QuickBooks to generate accurate reports for invoicing. Consequently, invoicing was delayed for a long period of time. The clerk has learned how to create accurate invoices and RPMC has been billed through December 31, 2006. In the future, RPMC and other grants will be billed at least quarterly.

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 June 7, 2007 an exit conference was held at the District Office with Peggy Ohler, District Clerk and James Montoya, Chairman of the Cuba Water Conservation District. Representing the Office of the State Auditor was Sanjay Bhakta, Audit Supervisor.