



# **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

**STATE OF NEW MEXICO**

**DEMING**

**SOIL AND WATER CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**Fiscal Year Ended June 30, 2006**

**(With Independent Auditor's Report Thereon)**

8015

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

TABLE OF CONTENTS  
JUNE 30, 2006

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents	i	
Official Roster	ii	
FINANCIAL SECTION		
Independent Auditor's Report		1
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	3
Statement of Activities	2	4
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	5
Reconciliation of the Balance Sheet to the Statement of Net Assets		6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4	7
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds to the Statement of Activities		8
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis)	5	9
Notes to the Financial Statements		10
OTHER REPORTS		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		19
Schedule of Findings and Responses		21
Exit Conference		27

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT  
OFFICIAL ROSTER  
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Rick Holdridge	Chairperson
Leedru Hyatt	Vice-Chairperson
Don Hartman	Secretary/Treasurer
Don Cameron	Supervisor
Jim Wood	Supervisor
Larry Hooper	Supervisor
Bill Shattuck	Supervisor
<u>District Personnel</u>	<u>Title</u>
Amy Donaker	Administrative Assistant



# OFFICE OF THE STATE AUDITOR

Hector H. Balderas

## INDEPENDENT AUDITOR'S REPORT

Leedtrud Hyatt, Chairman  
and Members of the Board of Supervisors  
Deming Soil and Water Conservation District  
405 E. Florida  
Deming, New Mexico 88030

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparison of the Deming 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 comparison for the general fund and the special revenue 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 February 8, 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

February 8, 2007

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

		Governmental Activities
<b>Assets</b>		
Cash	\$	21,684
Interest receivable		3,025
Accounts receivable - loans from ranchers		300,000
Prepaid expenses		1,601
Capital assets, net		28,692
<b>Total assets</b>		<u>355,002</u>
<b>Liabilities</b>		
Accounts payable		400
Accrued interest on loan		2,301
Noncurrent liabilities		
Due within one year		11,744
Due in more than one year		288,256
<b>Total liabilities</b>		<u>302,701</u>
<b>Net Assets</b>		
Invested in capital assets		28,692
Restricted for:		
Conservation projects - FRIF		6,212
Unrestricted		17,397
<b>Total net assets</b>	<b>\$</b>	<u><u>52,301</u></u>

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

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

	Governmental Activities
<b>Program Expenses</b>	
Conservation:	
Salaries	\$ 9,556
Mileage & per diem	5,240
Surety bond	100
Dues	1,805
FRIF project	9,164
Information & education	3,098
Office Expenses	1,640
Advertising	3,500
Depreciation	4,782
Interest	2,301
Closing cost - ISC loans	1,551
Total program expenses	42,737
<b>Program Revenues</b>	
Charges for services	3,825
County operating grant - FRIF	10,000
NMDA - Capital outlay grant	14,000
Total program revenues	27,825
Net program (expense) revenue	(14,912)
<b>General Revenues</b>	
NMDA allotment	9,944
Interest	672
Gain on sale of capital assets	1,750
Miscellaneous	225
Total general revenues	12,591
Change in net assets	(2,321)
Net assets at beginning of year	54,622
Net assets at end of year	\$ 52,301

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

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

Exhibit 3

	General Fund	Special Revenue Fund	Total
<b>Assets</b>			
Cash	\$ 16,860	\$ 4,824	\$ 21,684
Interest receivable	-	3,025	3,025
Accounts receivable -ranchers	-	300,000	300,000
Prepaid expenses	1,601	-	1,601
Due from special revenue fund	5,398	-	5,398
<b>Total assets</b>	<b>\$ 23,859</b>	<b>\$ 307,849</b>	<b>\$ 331,708</b>
<b>Liabilities and fund balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 400	-	\$ 400
Interest payable on ISC loan	-	2,301	2,301
Due to general fund	-	5,398	5,398
<b>Total liabilities</b>	<b>400</b>	<b>7,699</b>	<b>8,099</b>
<b>Fund balance:</b>			
Reserved for ISC loans	-	300,000	300,000
Unreserved, undesignated	23,459	150	23,609
<b>Total fund balance</b>	<b>23,459</b>	<b>300,150</b>	<b>323,609</b>
<b>Total liabilities and fund balance</b>	<b>\$ 23,859</b>	<b>\$ 307,849</b>	<b>\$ 331,708</b>

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





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

Exhibit 4

	General Fund	Special Revenue Fund	Total
<b>Revenues</b>			
State allocation	\$ 9,944	-	\$ 9,944
State allocation - Capital outlay	14,000	-	14,000
Grants and contracts - local sources	10,000	-	10,000
Interest	495	3,202	3,697
Reimbursements - Closing cost on loans	-	800	800
Miscellaneous	225	-	225
<b>Total revenues</b>	<b>34,664</b>	<b>4,002</b>	<b>38,666</b>
<b>Expenditures</b>			
<b>Conservation:</b>			
Current:			
Salaries	9,556	-	9,556
Mileage & per diem	5,240	-	5,240
Surety bond	100	-	100
Dues	1,805	-	1,805
FRIF project	9,164	-	9,164
Information & education	3,098	-	3,098
Office Expenses	1,640	-	1,640
Advertising	3,500	-	3,500
Capital outlay	33,474	-	33,474
Interest expense - ISC loan	-	2,301	2,301
Closing cost - ISC loans	-	1,551	1,551
<b>Total expenditures</b>	<b>67,577</b>	<b>3,852</b>	<b>71,429</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(32,913)</b>	<b>150</b>	<b>(32,763)</b>
<b>Other financing sources (uses):</b>			
Sale of capital assets	1,750	-	1,750
Loan proceeds - ISC	-	300,000	300,000
<b>Total other financing sources (uses)</b>	<b>1,750</b>	<b>300,000</b>	<b>301,750</b>
<b>Net change in fund balance</b>	<b>(31,163)</b>	<b>300,150</b>	<b>268,987</b>
<b>Fund balance beginning of year</b>	<b>54,622</b>	<b>-</b>	<b>54,622</b>
<b>Fund balance end of year</b>	<b>\$ 23,459</b>	<b>\$ 300,150</b>	<b>\$ 323,609</b>

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

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

Net change in fund balance - Governmental Funds (Exhibit 4)                   \$ 268,987

Amounts reported in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful life of the asset and reported as depreciation expense as follows:

Capital outlay	33,474
Depreciation expense	(4,782)

Government funds report loan proceeds as other sources of revenue. However, it is not reported as revenue in the Statement of Activities.	(300,000)
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Change in net assets - Statement of Activities (Exhibit 2)	\$ (2,321)
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The notes to the financial statements are an integral part of this statements.

STATE OF NEW MEXICO  
 DEMING SOIL AND WATER CONSERVATION DISTRICT  
 STATEMENT OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL AND SPECIAL REVENUE FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
State allocation	\$ 9,000	\$ 9,000	\$ 9,944	\$ 944
State allocation - Capital outlay grant	14,000	14,000	14,000	-
County grant - FRLF	10,000	10,000	10,000	-
Interest	500	500	495	(5)
Miscellaneous	-	-	225	225
Sale of capital assets	-	-	1,750	1,750
Loan proceeds from ISC	-	-	-	-
Closing cost reimbursements - Ranchers	-	-	-	-
<b>Total revenues</b>	<u>33,500</u>	<u>33,500</u>	<u>\$ 36,414</u>	<u>\$ 2,914</u>
Cash balance	43,375	43,375		
<b>Total</b>	<u>\$ 76,875</u>	<u>\$ 76,875</u>		
<b>Expenditures</b>				
Conservation:				
Salaries	\$ 5,000	\$ 8,000	\$ 9,591	\$ (1,591)
Mileage & per diem	3,500	5,500	5,240	260
Surety bond	100	100	100	(0)
Dues	1,500	1,590	1,805	(215)
FRLF project	10,000	10,000	9,164	836
Information & education	1,000	4,300	3,098	1,202
Office Expenses	1,000	2,300	1,640	660
Advertising	1,500	2,500	1,865	635
Equipment	35,000	35,000	25,106	9,894
Contingency	18,275	7,585	-	7,585
Loan distribution to ranchers	-	-	-	-
Closing cost - ISC loans	-	-	-	-
<b>Total expenditures</b>	<u>\$ 76,875</u>	<u>\$ 76,875</u>	<u>\$ 57,609</u>	<u>\$ 19,266</u>

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

Special Revenue Fund				
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
\$ -	\$ -	\$ -	\$ -	
-	-	-	-	
-	-	177	177	
-	-	-	-	
-	-	-	-	
-	-	300,000	300,000	
-	-	800	800	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,977</u>	<u>\$ 300,977</u>	
\$ -	\$ -	\$ -	\$ -	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	300,000	(300,000)	
-	-	1,551	(1,551)	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 301,551</u>	<u>\$ (301,551)</u>	

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

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Deming Soil and Water Conservation District (District) is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-49 NMSA 1978). The District is a governmental subdivision of the state, a public body corporate and politic, organized for control and prevention of flood, sediment, and soil erosion damage, and to further the conservation, development and beneficial use of water and soil resources. The governing body of the District consists of five elected supervisors, four of whom must be landowners in the District. Two additional supervisors may be appointed to the District board. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

A primary government is any state government or general-purpose local government and the organizations comprising its legal entity. Although the District is organized as a subdivision of the State and administratively attached to the New Mexico State University, Department of Agriculture, the statutory powers of the District establish it as a primary government with a separate corporate and legal identity. The District has no component units, financially dependent affiliates, nor is it legally liable for actions of other agencies.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets) 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  
DEMING 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 or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues 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 are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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 special revenue funds are utilized to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District has one special revenue fund. It was set up during FY 2006 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 for projects to conserve irrigation water on their property.

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 inter-fund 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**

The District's cash consists of a demand deposit account.

**2. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. All amounts are expected to be repaid within one year.

With funds received from the New Mexico Interstate Stream Commission, Deming SWCD has made low interest loans to ranchers within the boundaries of



STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

the District to promote soil conservation. As of June 30, 2006, there are four loans with balances of \$75,000 each. The total loan receivable balance is \$303,025 which includes accrued interest receivable of \$3,025.

The District's accounts payable represent routine monthly bills for service rendered and products purchased which are paid in the following month.

3. Restricted Assets

NMISC loan proceeds are set aside for their repayment and therefore classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable loan agreements.

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. There is no infrastructure which is required to be reported per GASB statement No. 34. 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:

Office equipment	5 years
Farm equipment	7 years
Computer equipment	5 years

5. Compensated Absences

The District employee does not receive any vacation or sick leave benefits.

6. Net Assets and Fund Balance

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of three components – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, unrestricted net assets, and restricted net assets- wherein the constraints are placed on net asset use either by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District's net assets as of June 30, 2006 consist of \$28,692 invested in capital assets, FRIF grant unexpended balance of \$6,212 which is restricted for conservation projects, and \$17,397 which is unrestricted.

Fund balance as reported in Exhibit 3 represents assets less liabilities of the governmental fund. The governmental funds report 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 of \$300,000 for its ISC loan in the Special Revenue Fund.

## II. Stewardship, Compliance and Accountability

### A. Budgetary Information

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government

STATE OF NEW MEXICO  
DEMING 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**

	General Fund	Special Revenue Fund
Non-GAAP revenues (Exhibit 5)	\$ 36,414	\$ 300,977
Prior year receivables	-	-
Current year receivables	-	3,025
ISC loan proceeds	-	(300,000)
GAAP revenues (Exhibit 4)	<u>\$ 36,414</u>	<u>\$ 4,002</u>
Non-GAAP expenditures (Exhibit 5)	\$ 57,609	\$ 301,551
Prior year payables	(403)	-
Prior year's prepaid expenses	11,572	-
Current year payables	400	2,301
ISC loan disbursements	-	(300,000)
Current year's prepaid expenses	(1,601)	-
Current year payroll accrual	-	-
GAAP expenditures (Exhibit 4)	<u>\$ 67,577</u>	<u>\$ 3,852</u>

**III. Detailed Notes on all Funds**

**A. Cash**

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

As of June 30, 2006, the District had a carrying amount of deposits of \$21,684. The bank balances for deposits were \$22,393. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$709. The total bank balance of \$22,393 consisted of the following:

<u>First New Mexico Bank</u>	\$ 22,393
Demand deposits	(22,393)
Less: FDIC coverage	<u>          </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 District does not have a deposit policy for custodial credit risk. As of June 30, 2006, none of the District's bank balances were exposed to custodial credit risk.

**B. Capital Assets**

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

Description	6/30/05	Additions	Deletions	6/30/06
Governmental activities:				
Equipment	\$ 9,587	\$ 33,474	\$ 3,000	\$ 40,061
Less: Accumulated depreciation	<u>(9,587)</u>	<u>(4,782)</u>	<u>(3,000)</u>	<u>(11,369)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 28,692</u>	<u>\$ -</u>	<u>\$ 28,692</u>

**C. Long-Term Debt**

Notes Payable:

On March 10, 2006, the District obtained a \$300,000 loan from the New Mexico Interstate Stream Commission. The loan is repayable in annual installments over 20 years at the interest rate of two and a half percent per annum. The following are the debt service requirements to maturity for this loan:

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

Payment Due Date	Principal	Interest	Total
3/10/07	11,744	7,500	19,244
3/10/08	12,038	7,206	19,244
3/10/09	12,339	6,905	19,244
3/10/10	12,647	6,597	19,244
3/10/11	12,963	6,281	19,244
Next 5 years	69,843	26,378	96,221
Next 5 years	79,021	17,200	96,221
Thereafter	89,405	6,816	96,221
Total	<u>\$300,000</u>	<u>\$ 84,883</u>	<u>\$384,883</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	Due Within One Year
Note payable					
NMISC	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ 11,744
Totals	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 11,744</u>

**IV. Other Information**

**A. Risk Management**

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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 \$15,000 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.



# 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*

Leedru Hyatt, Chairman  
and Members of the Board of Supervisors  
Deming Soil and Water Conservation District  
405 E. Florida  
Deming, New Mexico 88030

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparison of the Deming Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated February 8, 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 05-1, 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is not considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 05-1, 06-3 and 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 the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

*Office of the State Auditor*

OFFICE OF THE STATE AUDITOR  
February 8, 2007



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

STATUS OF PRIOR YEAR AUDIT FINDINGS

Finding: 05-1 – Improper travel expenditure. (Modified and Repeated)

CURRENT YEAR AUDIT FINDINGS:

**05-1. Improper travel expenditure (Modified and Repeated)**

Condition

The District wrote 127 checks in FY06 which totaled \$63,547. Auditors tested 41 disbursements (\$50,332) and found two (2) overpayments totaling \$82.79 for mileage. Mileage overpayments resulted from using an improper rate (.405). There were also three other disbursements totaling \$221.83 which lacked adequate documentation to substantiate claims for meals.

Criteria

New Mexico Department of Finance and Administration (DFA) Rule 2.42.2 NMAC establishes travel and per diem regulations for various sections of the *New Mexico Statutes Annotated 1978* (NMSA), including a provision of an affidavit for lost receipts.

Effect

The District is not in compliance with State law and travel regulations. Overpayments of \$82.79 are known to have been made and the propriety of another \$221.83 cannot be determined. Undetected improper expenditure may result in financial statement misstatements.

Cause

The Board of Supervisors provided inadequate oversight when approving bills for payment.

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

Recommendation

Review DFA Rule 2.42.2 NMAC on the matter and develop written policies consistent with that guidance. Closely examine supporting documentation to ensure propriety of expense before authorizing payment. Ensure that current and allowable mileage rate is used to calculate reimbursement for such expenses. Reimbursements should not be made unless requests are being supported by receipts or affidavits.

District's Response

The State rates will be followed with regards to per diem for hotel, meals and mileage. Receipts will be attached to all re-imbursement forms. The board will then examine all documentation before authorizing payment.

**06-1. Incorrect Reporting to the Department of Finance and Administration**

Condition

The amount of total net withdrawals as per bank statements, and the total expenditures as per monthly financial report presented every month to the Board for their review and submitted to the Department of Finance and Administration every quarter, did not agree. Out of ten line items for expenditure, seven had discrepancies. The General Fund expenditure amount was understated by \$1,775 in the report for the year ending June 30, 2006. The activity of Special Revenue Fund (ISC loan) was not reported to DFA at all. The District's activity for the Special Revenue Fund FYE 6-30-2006 included loan proceeds of \$300,000 from ISC, disbursement of \$300,000 as loans to ranchers, loan closing expenses of \$1,551, reimbursement income of \$800 towards closing cost from ranchers and cash balance of \$4,824 as of 6-30-06.

Criteria

Good accounting practice requires that total of withdrawals from bank accounts agrees with total of expenditures. Operations Handbook for Soil and Water Conservation Districts, State of New Mexico; § Financial Records Management, Chapter 2, Quarterly Reports (3) requires that the District submits the quarterly financial reports to DFA. The reports submitted should be based upon accurate financial records of the District.

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

Effect

The District is not in compliance due to submitting inaccurate quarterly reports to DFA. Because of the understated expenditures, it is difficult to determine if line item expenditures were within or over the budget. Due to understated expenditures, the financial reports presented to the Board were misleading. Due to inaccurate bookkeeping, there is a potential for financial statement misstatement that may not be detected.

Cause

Some of the income received was posted as a reduction of expenses rather than an increase of revenue. The line item amounts used to prepare the reports were not from the report generated by the accounting software used by the District.

Recommendation

The District needs to maintain its accounting records by accurately posting all expenditures and revenues to the respective budgeted line items. The reports for management and DFA should be prepared using amounts generated from the accounting software used by the District. The Board should provide adequate oversight to financial records of the district.

Management's Response

The Board acknowledges the improper reporting to DFA regarding the budget omission of the ISC re-loan program for FY 2006. It was an oversight by the Board not to modify our budget and send it off to DFA. The budget for FY 07 accurately reflects the ISC disbursements. The District will see to it that the accounting software used accurately follows the budgeted line items.

**06-2. Improper payroll disbursement**

Condition

During our audit of payroll expenditures, we calculated hours from all (16) timesheets for the FY06 and noted that in three instances there were payments for hours for the same day which were already paid for in the previous pay period which resulted in an overpayment of \$98.40.

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

Criteria

Good accounting practice requires payroll expenditure to be calculated accurately. Good internal control requires the person approving the timesheet to check the accuracy of it.

Effect

The District overpaid the District Clerk.

Cause

The Board did not provide adequate oversight during the timesheet approval process and the payroll expenditure.

Recommendation

Check timesheets for accuracy when a board member approves it.

District's Response

The District acknowledges the overpayment for the hours for the same day in the amount of \$98.40. The administrator has been on a net salary since April 2006. Therefore, this will not happen in the future.

**06-3. Disposition of Capital Assets**

Condition

During our audit test work of capital assets, we found that the District sold Surge Irrigation Valves for \$1,750. However, the District did not notify the Office of the State Auditor of its disposition of assets.

Criteria

Per Section 13-6-1 (B) (2) NMSA 1978, a local public body is required to notify the State Auditor at least thirty days prior to any such disposition of property, by sending a copy of its official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action.

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

Effect

The District is not in compliance of NMSA 1978 Section 13-6-1 (B) (2). By not following the appropriate procedure governing the disposal of assets, the District may have used an unallowable method to dispose of its capital assets.

Cause

The District was unaware of the requirement.

Recommendation

We recommend that the Board document the official finding and proposed disposition of the property sought to be disposed of, and the approval of it, as part of the official minutes, and notify the State Auditor's Office of any dispositions of capital assets 30 days prior to such disposal.

Management's Response

The District was unaware that they had to notify the State Auditor's Office of the capital assets that had no value. The Board will notify the State Auditor's Office of any capital assets that they plan on disposing of in writing thirty days prior to disposal.

**06-4. Lack of Approved Budget for Re-loan Fund**

Condition

During our audit of the District's budget, we noted that for fiscal 2006, a budget for the Re-loan program was not submitted to DFA for approval.

Criteria

The Soil and Water Conservation Handbook and Section 6-6-2 NMSA 1978 require that an annual budget be submitted and approved by the Department of Finance and Administration for all the activities of the District.

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

Effect

The District could overlook an overpayment or underpayment if it is not reviewing the activity for reasonableness in a budget comparison.

Cause

The Board failed to follow the budget approval procedure.

Recommendation

We recommend that the District submit a budget for all its activities and comply with the Department of Finance and Administration regulations and its own policy manual.

District's Response

It was an oversight by the board not to modify the District's budget and send it off to DFA. The budget for FY07 accurately reflects the ISC disbursements.

STATE OF NEW MEXICO  
DEMING SOIL AND WATER CONSERVATION DISTRICT

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 February 8, 2007, an exit conference was held at the District Office with Mr. Bill Shattuck, Vice Chairman and Ms. Amy Donaker, Administrative Assistant of the Deming Soil and Water Conservation District. Representing the Office of the State Auditor was Sanjay Bhakta, Audit Supervisor and Peter Pacheco, Staff Auditor.