

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**STATE OF NEW MEXICO**

**EAST RIO ARRIBA**

**SOIL AND WATER CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

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



**Domingo P. Martinez, CGFM**  
**State Auditor**

8016

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2005

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STATE AUDITOR

STATE OF NEW MEXICO  
EAST RIO ARriba SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER  
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Levi A. Sanchez	Chairperson
Silviano Romero	Vice-Chairperson
J. Lucas Cordova	Treasurer
Leroy J. Salazar	Secretary
Louie Fresquez	Member
<u>District Personnel</u>	<u>Title</u>
Mary A. Sanchez	Administrative Assistant



# State of New Mexico OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM  
State Auditor

Carl M. Baldwin, CPA, CFE  
Deputy State Auditor

## INDEPENDENT AUDITOR'S REPORT

Mr. Levi A. Sanchez, Chair  
and Members of the Board of Supervisors  
East Rio Arriba Soil and Water Conservation District  
424H South Riverside Drive  
Española, New Mexico 87532

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the East Rio Arriba Soil and Water Conservation District (District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2006 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 31, 2006

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

Exhibit 1

	Governmental Activities
<b>Assets</b>	
Cash	\$ 59,697
Property taxes receivable	1,392
Grant receivable	3,179
Capital assets, net	13,795
Total assets	78,063
<b>Liabilities</b>	
Accounts payable	2,354
Note payable to NMFA	
Due within one year	1,684
Due in more than one year	8,064
Total liabilities	12,102
<b>Net Assets</b>	
Invested in capital assets, net	4,047
Restricted for:	
Conservation projects	-
Unrestricted	61,914
Total net assets	\$ 65,961

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

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

	Governmental Activities
<b>Program Expenses:</b>	
Conservation:	
Dues	1,657
Information and education	4,403
Insurance	1,903
Janitorial	876
Board meetings	7,030
Office expense	5,828
Personnel services	17,618
Office rent	7,088
Conservation project	3,369
Travel and per diem	1,781
Utilities	1,394
Postage	185
Maintenance & repairs	2,051
Upper Rio Grande Project	2,580
Depreciation	3,874
Total program expenses	<u>61,637</u>
<b>Program Revenues:</b>	
Operating grant revenues	4,588
Charges for services-equipment rental	1,015
Total program revenues	<u>5,603</u>
Net program (expense) revenue	<u>(56,034)</u>
<b>General Revenues:</b>	
NMDA allotment	9,774
Property taxes	51,145
Interest	281
Loss on disposition of equipment	(70)
Total general revenues and special item	<u>61,130</u>
Change in net assets	5,096
Net assets at beginning of year	<u>60,865</u>
Net assets at end of year	<u>\$ 65,961</u>

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

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

Exhibit 3

	General Fund
<b>Assets</b>	
Cash	\$ 59,697
Property taxes receivable	1,392
Grant receivable	3,179
Total assets	\$ 64,268
<b>Liabilities and fund balance</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 2,354
Total liabilities	2,354
<b>Fund balance:</b>	
Unreserved, designated for subsequent year's expenditures	25,895
Unreserved, undesignated	36,019
Total fund balance	61,914
Total liabilities and fund balance	\$ 64,268

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





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

	<u>General Fund</u>
<b>Revenues</b>	
State allocation	\$ 9,774
Property taxes	51,145
Equipment rentals	1,015
Reimbursements for projects	4,588
Interest	281
Miscellaneous	-
Total revenues	<u>66,803</u>
<b>Expenditures</b>	
Conservation:	
Current:	
Dues	1,657
Information and education	4,403
Insurance	1,903
Janitorial	876
Board meetings	7,030
Office expense	5,828
Personnel services	17,618
Office rent	7,088
Conservation project	3,369
Travel and per diem	1,781
Utilities	1,394
Miscellaneous	-
Postage	185
Maintenance & repairs	2,051
Upper Rio Grande Project	2,580
Capital Outlay - Equipment	2,704
Total expenditures	<u>60,467</u>
Net change in fund balance	6,336
Fund balance beginning of year	<u>55,578</u>
Fund balance end of year	<u><u>\$ 61,914</u></u>

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

STATE OF NEW MEXICO  
 EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balance - Governmental Funds (Exhibit 4)                      \$     6,336

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	2,704
Depreciation expense	(3,874)
Loss on disposition of equipment	(70)

Repayment of principal on long-term debt (note payable) is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount repaid in the current year:

Change in net assets - Statement of Activities (Exhibit 2)	\$     5,096
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STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 5

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
State allocation	\$ 9,300	\$ 9,300	\$ 9,774	\$ 474
Mill levy	47,000	47,000	58,782	11,782
Equipment rental	2,010	2,010	1,015	(995)
Interest Income	300	300	332	32
Subdivision review	25	25	-	(25)
Reimbursements for projects	-	-	1,409	1,409
Total revenues	<u>58,635</u>	<u>58,635</u>	<u>71,312</u>	<u>12,677</u>
Cash balance budgeted	22,711	22,711		
Total revenues and cash	<u>\$ 81,346</u>	<u>\$ 81,346</u>		
<b>Expenditures</b>				
Current:				
Conservation assistance	\$ 100	\$ 100	-	\$ 100
Dues	1,770	1,770	1,657	113
Election	2,000	2,000	-	2,000
Information and education	5,800	5,800	4,418	1,382
Insurance	700	700	1,903	(1,203)
Janitorial	900	900	876	24
Board meetings	8,075	8,075	7,030	1,045
Office expense	5,110	5,110	4,128	982
Personnel services	18,696	18,696	18,285	411
Office rent	7,200	7,200	7,088	112
Conservation project	7,725	7,725	2,419	5,306
Travel and per diem	12,000	12,000	1,887	10,113
Utilities	2,500	2,500	1,492	1,008
Miscellaneous	45	45	-	45
Postage	700	700	185	515
Maintenance & repairs	1,100	1,100	2,174	(1,074)
Subdivision review	25	25	-	25
Upper Rio Grande Project	-	-	2,386	(2,386)
Loan Payments - NMRA	-	-	-	-
Capital Outlay - Equipment	6,900	6,900	4,242	2,658
Total expenditures	<u>\$ 81,346</u>	<u>\$ 81,346</u>	<u>\$ 60,170</u>	<u>\$ 21,176</u>

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

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The East Rio Arriba 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). The District is required to implement GASB Statement No. 40, *Deposit and 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 statements of net assets and activities) 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  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

which rely to a significant extent on fees and charges for support. However, the District does not have any 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. Taxes and 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. 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 measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

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**

The District's cash and cash equivalents are considered to be demand deposits and short term investments (certificates of deposit) with original maturities of twelve months 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 Rio Arriba County and are remitted to the District in the month following collection. These receivables are fully collectible therefore no allowance is presented.

The District's accounts payable represent routine monthly bills for services rendered and products purchased in the current year and paid in the following year. Accounts payable consists of \$566 for accrued payroll and \$1,788 for vendors.

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

3. Capital Assets

Capital assets, which include property, equipment (including software), and are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by state law as assets with an initial cost of \$1,000 and an estimated useful life of more than one year. The total amounts spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized. The District does not have any infrastructure.

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	5 years
Trailer	5 years
Carport	5 years

4. 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 – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation and unrestricted net assets. In the fund financial statements, 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 no reservation of fund balance.

## II. Stewardship, Compliance and Accountability

### A. Budgetary Information

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



STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

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**

	General	
	Fund	
Non-GAAP revenues (Exhibit 5)	\$ 71,312	
Prior year receivables	(9,080)	
Current year receivables	4,571	
GAAP revenues (Exhibit 4)	<u>\$ 66,803</u>	
Non-GAAP expenditures (Exhibit 5)	\$ 60,170	
Prior year payables	(2,057)	
Current year payables	2,354	
GAAP expenditures (Exhibit 4)	<u>\$ 60,467</u>	

**III. Detailed Notes on all Funds**

**A. Cash**

As of June 30, 2005, the District had a carrying amount of deposits of \$59,697. The bank balances for deposits were \$63,308. The difference between the carrying amount and the bank balance of deposits is due to

STATE OF NEW MEXICO  
EAST RIO ARriba SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

outstanding checks of \$3,611. The total bank balance consisted of the following:

*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. All of the District's demand deposits and time deposits were covered entirely by FDIC insurance.

Valley National Bank

Demand deposits	\$ 58,755
Less: FDIC coverage	<u>(58,755)</u>
Amount uninsured	<u><u>\$ -0-</u></u>

Valley National Bank

Savings Account	\$ 506
Less: FDIC coverage	<u>(506)</u>
Amount uninsured	<u><u>\$ -0-</u></u>

Valley National Bank

Certificate of Deposit	\$ 4,047
Less: FDIC coverage	<u>(4,047)</u>
Amount uninsured	<u><u>\$ -0-</u></u>

STATE OF NEW MEXICO  
EAST RIO ARriba SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

**B. Capital Assets**

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

Description	Balance			Balance 6/30/2005
	6/30/2004	Additions	Deletions	
Farm Equipment	\$ 20,704	\$ 9,748	\$ -	\$ 30,452
Office Equipment	4,340	1,650	(1,400)	4,590
Carport	-	1,054	-	1,054
Rolling Rivers Trailer	6,000	-	-	6,000
<b>Total capital assets</b>	<b>31,044</b>	<b>12,452</b>	<b>(1,400)</b>	<b>42,096</b>
Depreciation:				
Farm Equipment	20,067	2,255	-	22,322
Office Equipment	3,990	349	(1,330)	3,009
Carport	-	70	-	70
Rolling Rivers Trailer	1,700	1,200	-	2,900
Less accumulated depreciation	25,757	3,874	(1,330)	28,301
Capital assets, net	<u>\$ 5,287</u>	<u>\$ 8,578</u>	<u>\$ (70)</u>	<u>\$ 13,795</u>

**C. Leases**

Operating Leases

The District leases office space under a three year, non-cancelable lease expiring on November 1, 2006. The cost of the lease was \$6,367 for the fiscal year ended June 30, 2005. Future minimum annual payments of \$8,490 are due as follows:

FY 06	\$ 6,367
FY 07	\$ 2,123

**D. Long-Term Debt**

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

Note Payable

The District entered into a loan agreement dated August 27, 2004 with the New Mexico Finance Authority to finance the costs of acquiring conservation equipment. The interest rate of the loan is three percent plus a .25% administrative fee. The following are the debt service requirements to maturity for this loan:

Payment Due Date	Principal	Interest	Admin Fee	Total
11/1/2005	\$ -	\$ 316	\$ 29	\$ 345
5/1/2006	1,684	134	12	1,830
11/1/2006	-	111	10	121
5/1/2007	1,927	111	10	2,048
11/1/2007	-	84	8	92
5/1/2008	1,985	84	7	2,076
11/1/2008	-	57	5	62
5/1/2009	2,045	57	5	2,107
11/1/2009	-	29	3	32
5/1/2010	2,107	29	3	2,139
	<u>\$ 9,748</u>	<u>\$ 1,012</u>	<u>\$ 91</u>	<u>\$ 10,852</u>

Changes in Long-term Liabilities

NMFA Loan	Beginning			Ending			Due Within One Year
	Balance	Additions	Deletions	Balance			
\$ -	\$ 9,748	\$ -	\$ -	\$ 9,748		\$ 1,684	
<u>\$ -</u>	<u>\$ 9,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,748</u>		<u>\$ 1,684</u>	

IV. Other Information

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

**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, 2005, 2004, and 2003 are \$1,121, \$1,209, and \$1,165 respectively, equal to the amount of required contributions each year.

**B. Risk Management**

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,050,000 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 \$50,000 surety bond on its employee and two members of the board of supervisors (chairperson and treasurer), 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.

**C. Related Party Transactions**

The administrative assistant is the spouse of a supervisor and was paid \$16,649 for personal services for the fiscal year ended June 30, 2005.



# State of New Mexico

## OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM  
State Auditor

Carl M. Baldwin, CPA, CFE  
Deputy State Auditor

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. Levi A. Sanchez, Chair  
and Members of the Board of Supervisors  
East Rio Arriba Soil and Water Conservation District  
424H South Riverside Drive  
Española, NM 87532

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the East Rio Arriba Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated March 31, 2006. 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and recommendations as item 05-1.

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

*Office of the State Auditor*

OFFICE OF THE STATE AUDITOR

March 31, 2006

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2005

STATUS OF PRIOR YEAR AUDIT FINDINGS

04-1 Per Diem Expenditure Supporting Documentation - Resolved

CURRENT YEAR AUDIT FINDINGS

Finding 05-1 – Payroll Withholdings

Condition

During our testwork of the payroll expenditures, we noted (1) that the District is not withholding or paying the social security portion of FICA and (2) that the employee's share of Medicare was not being withheld in the calculation of the net pay.

Criteria

Federal wage laws require that FICA be withheld from an employee's pay and an equal portion be paid by the employer unless an employer has a valid Section 218 agreement in place with the Social Security Administration.

Effect

The District is not in compliance with federal payroll regulations. The District is paying more than its share of the Medicare portion of FICA.

Cause

The District believed it had a choice of whether to pay social security or not. The District does not understand that a 218 agreement needed to be filed with the Social Security Administration and continues to dispute the need to do so.

Recommendation

We recommend the District contact the Social Security Administration to obtain information to resolve this matter and comply with federal withholding regulations and properly include as part of the deductions from gross wages the employee's share of FICA.



STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2005

Management's Response

When the Administrative Assistant commenced working for East Rio Arriba Soil and Water Conservation District, the Board of Supervisors gave choice of either Social Security or PERA coverage because the District could only pay contribution for one coverage. The Administrative Assistant chose PERA. At the October 1990 monthly meeting, East Rio Arriba Soil and Water Conservation District's Board of Supervisors approved a payroll policy for the Administrative Assistant's PERA coverage (with contribution by both the District and the Administrative Assistant), as well as East Rio Arriba SWCD would pay the Administrative Assistant's fees to Medicare, Workers' Compensation and Unemployment Insurance.

State Auditor's Response

We appreciate the District's explanation as to how the decision to provide for only one coverage was made. However, the fact remains that the District has not filed a 218 agreement and is not in compliance with federal law. The District is exposed to possible penalty and interest assessments by the Internal Revenue Service for non-payment.

STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE  
JUNE 30, 2005

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor. However, the contents remain the responsibility of the District.

Exit Conference

An exit conference was held on March 31, 2006 at the District Office with Ms. Mary A. Sanchez, administrative assistant, and Mr. Levi A. Sanchez, Board Chairman. Audit supervisor Joyce Sandoval represented the Office of the State Auditor.