

**STATE OF NEW MEXICO**

**EAST RIO ARRIBA**

**SOIL AND WATER CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**Fiscal Year Ended June 30, 2006**

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

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

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JUNE 30, 2006

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STATE OF NEW MEXICO  
EAST RIO ARRIBA SOIL AND WATER CONSERVATION DISTRICT  
OFFICIAL ROSTER  
JUNE 30, 2006

<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



# **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

## **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 budgetary comparison of the East Rio Arriba 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 with 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 April 5, 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  
April 5, 2007

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

Exhibit 1

	Governmental Activities
<b>Assets</b>	
Cash	\$ 55,461
Property taxes receivable	1,674
Grant receivable	1,223
Other receivable	340
Investments	4,122
Capital assets, net	10,104
<b>Total assets</b>	<b>72,924</b>
<b>Liabilities</b>	
Accounts payable	1,915
Note payable to NMFA	
Due within one year	1,927
Due in more than one year	6,137
<b>Total liabilities</b>	<b>9,979</b>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	2,040
Restricted for:	
Conservation projects	-
Unrestricted	60,905
<b>Total net assets</b>	<b>\$ 62,945</b>

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, 2006

Exhibit 2

	Governmental Activities
<b>Program Expenses:</b>	
Conservation:	
Dues	\$ 1,903
Information and education	4,423
Awards	359
Insurance	1,803
Janitorial	935
Board meetings	5,700
Elections	1,044
Office expense	2,609
Personnel services	19,401
Professional services	390
Office rent	7,317
Conservation project	13,279
Travel and per diem	4,439
Utilities	1,954
Postage	398
Maintenance & repairs	3,248
Upper Rio Grande Project	5,396
Miscellaneous	750
Depreciation	3,691
Total program expenses	79,039
<b>Program Revenues:</b>	
Operating grant revenues	5,628
Charges for services-equipment rental	1,761
Total program revenues	7,389
Net program (expense) revenue	(71,650)
<b>General Revenues:</b>	
NMDA allotment	9,646
Property taxes	57,446
Interest	426
Miscellaneous	1,116
Total general revenues	68,634
Change in net assets	(3,016)
Net assets at beginning of year	65,961
Net assets at end of year	\$ 62,945

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, 2006

	<u>General Fund</u>
<b>Assets</b>	
Cash	\$ 55,461
Property taxes receivable	1,674
Grant receivable	1,223
Other receivable	340
Investments	4,122
<b>Total assets</b>	<u><u>\$ 62,820</u></u>
<b>Liabilities and fund balance</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 1,915
<b>Total liabilities</b>	<u>1,915</u>
<b>Fund balances:</b>	
Unreserved, designated for subsequent year's expenditures	34,367
Unreserved, undesignated	26,538
<b>Total fund balance</b>	<u>60,905</u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 62,820</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  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund
<b>Revenues</b>	
State allocation	\$ 9,646
Property taxes	57,446
Equipment rentals	1,761
Reimbursements for projects	5,628
Interest	426
Miscellaneous	1,116
Total revenues	76,023
<b>Expenditures</b>	
Conservation:	
Current:	
Dues & subscriptions	1,903
Information and education	4,423
Awards	359
Insurance	1,803
Janitorial	935
Board meetings	5,700
Election	1,044
Office expense	2,609
Personnel services	19,401
Professional services	390
Office rent	7,317
Conservation projects	13,279
Travel and per diem	4,439
Utilities	1,954
Postage	398
Maintenance & repairs	2,798
Upper Rio Grande Project	5,396
Miscellaneous	750
Debt Service:	
Principal	1,684
Interest	450
Capital Outlay - Equipment	-
Total expenditures	77,032
Net change in fund balance	(1,009)
Fund balance beginning of year	61,914
Fund balance end of year	\$ 60,905

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 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	
<b>Revenues</b>				
State allocation	\$ 9,800	\$ 9,800	\$ 9,646	\$ (154)
Property Taxes	50,000	50,000	57,164	7,164
Equipment rental	2,010	2,010	1,761	(249)
Interest Income	300	300	426	126
Subdivision review	25	25	-	(25)
Reimbursements for projects	-	7,584	7,584	-
Miscellaneous	-	607	775	168
Total revenues	<u>62,135</u>	<u>70,326</u>	<u>\$ 77,356</u>	<u>\$ 7,030</u>
Cash balance budgeted	25,895	28,278		
Total revenues and cash balance	<u>\$ 88,030</u>	<u>\$ 98,604</u>		
<b>Expenditures</b>				
Current:				
Conservation assistance	\$ 100	\$ 100	-	\$ 100
Dues	1,770	1,845	1,903	(58)
Election	2,000	2,000	1,044	956
Information and education	3,500	5,000	4,423	577
Awards	550	590	359	231
Insurance	800	800	1,803	(1,003)
Janitorial	900	920	935	(15)
Board meetings	8,075	8,075	5,700	2,375
Office expense	4,325	4,370	2,772	1,598
Personnel services	18,700	18,700	18,494	206
Office rent	7,200	7,200	7,316	(116)
Conservation project	14,725	17,785	14,229	3,556
Travel and per diem	12,000	12,000	4,724	7,276
Utilities	2,500	2,500	1,902	598
Miscellaneous	-	-	-	-
Postage	700	700	398	302
Maintenance & repairs	1,100	1,100	28	1,072
Subdivision review	25	25	-	25
Upper Rio Grande Project	-	7,584	5,590	1,994
Miscellaneous	60	810	750	60
Capital Outlay - Equipment	9,000	6,500	2,967	3,533
Debt Service - Principal	-	-	1,684	(1,684)
Debt Service - Interest	-	-	450	(450)
Total expenditures	<u>\$ 88,030</u>	<u>\$ 98,604</u>	<u>\$ 77,471</u>	<u>\$ 21,133</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, 2006

**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). 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 Statement of 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-

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) 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) operating grants for the Upper Rio Grand Project is restricted to meeting the operational requirements of this particular project. 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, 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 investments**

The District's cash and cash equivalents consists of demand deposits, savings deposits and long term investments (non-negotiable certificates of deposit) with original maturities of five years 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 which are due at 6/30/06 but paid for after fiscal-year-end. Accounts payable consists of \$1,473 for accrued payroll and \$442 for vendors.

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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 \$5,000 and an estimated useful life of more than one year. The total amounts spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized. The District 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 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 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 provision 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 segregated for a specific use. Designations may be established to indicate tentative plans for resource utilization in a future period. The District had no restricted net assets or fund balance reservations, but does have \$34,367 of its fund balance that has been designated for subsequent year expenditures to balance the FY 07 budget.



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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**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 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)	\$ 77,356
Prior year receivables	(4,570)
Current year receivables	3,237
<u>GAAP revenues (Exhibit 4)</u>	<u>\$ 76,023</u>
Non-GAAP expenditures (Exhibit 5)	\$ 77,471
Prior year payables	(2,354)
Current year payables	1,915
<u>GAAP expenditures (Exhibit 4)</u>	<u>\$ 77,032</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**III. Detailed Notes on all Funds**

**A. Cash and Investments (CD's)**

As of June 30, 2006, the District had a carrying amount of deposits of \$59,583. The bank balances for deposits were \$52,468. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$3,805 and \$10,920 of deposits in transit. 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.

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows. The weighted average maturity is 4.167 years at 4.650% for the CD.

Valley National Bank

Demand deposits	\$ 47,837
Less: FDIC coverage	(47,837)
Amount uninsured	<u>\$ -0-</u>

Valley National Bank

Savings Account	\$ 509
Less: FDIC coverage	(509)
Amount uninsured	<u>\$ - 0 -</u>

Century Bank

Certificate of Deposit	\$ 4,122
Less: FDIC coverage	(4,122)
Amount uninsured	<u>\$ -0-</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**B. Capital Assets**

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

Description	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
<b>Governmental Activities:</b>				
Farm Equipment	\$ 30,452	\$ -	\$ -	\$ 30,452
Office Equipment	4,590	-	-	4,590
Carport	1,054	-	-	1,054
Rolling Rivers Trailer	6,000	-	-	6,000
<b>Total capital assets</b>	<b>42,096</b>	<b>-</b>	<b>-</b>	<b>42,096</b>
<b>Less: Accumulated Depreciation for</b>				
Farm Equipment	22,322	1,950	-	24,272
Office Equipment	3,009	330	-	3,339
Carport	70	1,200	-	1,270
Rolling Rivers Trailer	2,900	211	-	3,111
<b>Total accumulated depreciation</b>	<b>28,301</b>	<b>3,691</b>	<b>-</b>	<b>31,992</b>
<b>Capital assets, net</b>	<b>\$ 13,795</b>	<b>\$ (3,691)</b>	<b>\$ -</b>	<b>\$ 10,104</b>

**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 \$2,122 are due as follows:

FY 07      \$ 2,122

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**D. Long-Term Debt**

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
11/1/2006	\$ -	\$ 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>\$ 8,064</u>	<u>\$ 562</u>	<u>\$ 51</u>	<u>\$ 8,677</u>

Changes in Long-term Liabilities

	Beginning Balance June 30, 2005	Additions	Deletions	Ending Balance June 30, 2006	Due Within One Year
NMFA Loan	\$ 9,748	\$ -	\$ 1,684	\$ 8,064	\$ 1,927
	<u>\$ 9,748</u>	<u>\$ -</u>	<u>\$ 1,684</u>	<u>\$ 8,064</u>	<u>\$ 1,927</u>

STATE OF NEW MEXICO  
EAST RIO ARRIBA 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, 2005, 2004, and 2003 were \$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 \$16,807 for personal services for the fiscal year ended June 30, 2006.

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

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**D. Subsequent Event**

In February 2007, the Claunch-Pinto Soil and Water Conservation District assumed the trusteeship of the Upper Rio Grande Salt Cedar Control project from the New Mexico Association of Conservation Districts (NMCD). The following Soil and Water Conservation Districts (SWCD) East Rio Arriba, Ciudad, Coronado, Valencia, Santa Fe Pojoaque and East Torrance entered into a Joint Powers Agreement with Claunch-Pinto SWCD for removal of salt cedar from the Upper Rio Grande Basin. As of March 30, 2007 East Rio Arriba SWCD had not received any appropriations under the Joint Powers Agreement and the amount if any they would receive had not yet been determined.



# **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. 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, 2006 and have issued our report dated March 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 05-1, 06-1 and 06-2.

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, New Mexico Department of Finance and Administration, 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

April 5, 2007



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

FINDINGS AND RESPONSES  
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

05-1 Payroll Withholdings - Repeated

CURRENT YEAR AUDIT FINDINGS

05-1 – Lack of Required Payroll Withholdings (FICA)

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. A total amount of \$2,084 for all four quarters was not reported to the IRS.

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 RESPONSES  
JUNE 30, 2006

Management's Response

The District contacted the Social Security Administration, obtained a Modification No. 266 for Social Security coverage regarding the 218 coverage, and provided copies to DFA. After reviewing the federal withholding regulations, the District is withholding the employee's share of Medicare from the gross wages.

06-1 Deposits Not Made Timely

Condition

During our audit of the fiscal year ended June 30, 2006, we noted that five (5) receipts (total of \$34,436) out of thirteen (total of \$72,082) tested were not deposited timely.

Criteria

Sections 6-10-3 and 6-10-36.1 NMSA 1978 establish requirements for the timely deposit of funds by governmental agencies which cannot exceed five days from the date of collection when there is no suitable banking facility in the locality. In the case of the East Rio Arriba Soil and Water Conservation District which has suitable banking facilities, timely deposit is interpreted as within 24 hours of receipt.

Effect

The District was not in compliance with State law and receipts could be lost or stolen if not deposited timely.

Cause

The Board of Supervisors provided inadequate oversight when approving bills for payment. The District personnel were unaware of the 24 hour deposit requirement.

Recommendation

We recommend the District make deposits within 24 hours of receipt.

District Response

After the District personnel became aware of the requirements, they began depositing receipts within 24 hours of the date of collection.

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

FINDINGS AND RESPONSES  
JUNE 30, 2006

Finding: 06-2 – Improper Travel Expenditure

Condition

The District wrote 265 checks in FY06 which totaled \$77,470. Auditors tested 38 disbursements (\$23,838) and found one (1) overpayment totaling \$138.64 for mileage. Mileage overpayments resulted from using an improper rate (.48). There was also one other disbursements totaling \$30.12 which lacked adequate documentation to substantiate claims for a meal.

Criteria

New Mexico Department of Finance and Administration (DFA) Rule 2.42.2.8 NMAC establishes travel and per diem regulations for various sections of the New Mexico Statutes Annotated 1978 (NMSA), including provision of an affidavit for lost receipts.

Effect

The District could pay for unauthorized purchases if a receipt detailing the purchase is not available to demonstrate proprietary. Also, the District could overpay for mileage if an incorrect rate is being used. The person(s) who authorized or received the overpayment is subject to repay twice the amount over paid per Section 10-10-8 NMSA 1978.

Cause

The Board of Supervisors provided inadequate oversight when approving bills for payment and did not verify the correct rate for mileage was being used.

Recommendation

Review DFA's Travel and Per Diem policy and procedures guidance and develop written policies consistent with that guidance. Closely examine supporting documentation to ensure propriety of expense before authorizing payment. Obtain signed affidavits when receipts are lost and ensure the correct state established mileage rate is used.

District's Response

The District has reviewed DFA and Attorney General Guidance and is developing policies consistent with that guidance. Supporting documentation will be required before payment is authorized and lost receipts will require signed affidavits for payment.

STATE OF NEW MEXICO  
EAST RIO ARRIBA 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

An exit conference was held on April 5, 2007 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.