

STATE OF NEW MEXICO

**HAGERMAN-DEXTER
SOIL AND WATER CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2006**

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT
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JUNE 30, 2006

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STATE OF NEW MEXICO
HAGERMAN-DEXTER AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Ray Miles	Chairperson
James Freeland	Vice-Chairperson
Greg Krantz	Secretary/Treasurer
David Sterrett	Supervisor
Stuart Bogle	Supervisor
<u>District Personnel</u>	<u>Title</u>
Liz Wilson	District Clerk



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. Ray Miles, Chairperson
and Members of the Board of Supervisors
Hagerman-Dexter Soil and Water Conservation District
P. O. Drawer H
Hagerman, New Mexico 88232

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Hagerman-Dexter Soil and Water Conservation District (District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District as of June 30, 2006, and the respective changes in financial position, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis required by *GA SB 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 May 10, 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

May 10, 2007

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

	Governmental Activities
Assets	
Cash	\$ 69,684
Property taxes receivable	2,296
Capital assets, net	20,790
Total assets	92,770
Liabilities	
Accounts payable	5,929
Accrued payroll	138
Total liabilities	6,067
Net Assets	
Invested in capital assets	20,790
Unrestricted	65,913
Total net assets	\$ 86,703

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

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

	Governmental Activities
Program Expenses:	
Conservation:	
Salary	\$ 2,314
Payroll Taxes	479
Travel	2,567
Building	375
Office Supplies	1,643
Postage	37
Annual Meeting	1,198
Publications	71
Dues & Subscriptions	600
Bond & Insurance	200
Education	1,675
Cost Share	11,787
Grounds Maintenance	450
Utilities	2,011
Property Taxes	135
Miscellaneous	1,800
Bank overdraft	26
Depreciation	3,085
Total program expenses	30,453
Program Revenues:	
Charges for goods and services	-
Total program revenues	-
Net program (expense) revenue	(30,453)
General Revenues:	
NMDA allotment	7,458
Property taxes	16,565
Interest	482
Miscellaneous	2
Total general revenues	24,507
Change in net assets	(5,946)
Net assets at beginning of year	92,649
Net assets at end of year	\$ 86,703

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

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

	General Fund
Assets	
Cash	\$ 69,684
Property taxes receivable	2,296
Total assets	\$ 71,980
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 5,929
Accrued payroll	138
Total liabilities	6,067
Fund balance:	
Unreserved, designated for subsequent year's expenditures	-
Unreserved, undesignated	65,913
Total fund balance	65,913
Total liabilities and fund balance	\$ 71,980

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

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Amounts reported for governmental activities in the Statement of Net Assets are different from the way they are reported in the Balance Sheet - Governmental Funds as follows:

Fund Balance - Balance Sheet (Exhibit 3)	\$ 65,913
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds	
Capital assets, net of accumulated depreciation	<u>20,790</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 86,703</u></u>

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

STATE OF NEW MEXICO
 HAGERMAN-DEXTER 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
Revenues	
State allocation	\$ 7,458
Property taxes	16,565
Interest	482
Miscellaneous	2
Total revenues	24,507
Expenditures	
Conservation:	
Current:	
Salary	2,314
Payroll Taxes	479
Travel	2,567
Building	375
Office Supplies	1,643
Postage	37
Annual meeting	1,198
Publications	71
Dues & Subscriptions	600
Bond & Insurance	200
Education	1,675
Cost Share	11,787
Grounds Maintenance	450
Utilities	2,011
Property taxes	135
Miscellaneous	1,800
Bank overdraft	26
Total expenditures	27,368
Net change in fund balance	(2,861)
Fund balance beginning of year	68,774
Fund balance end of year	\$ 65,913

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

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

Net change in fund balance - Governmental Funds (Exhibit 4) \$ (2,861)

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:

Depreciation expense	(3,085)
Change in net assets - Statement of Activities (Exhibit 2)	\$ (5,946)

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

STATE OF NEW MEXICO
HAGERMAN-DEXTER 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

Exhibit 5

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
State allocation	\$ 8,650	\$ 9,000	\$ 7,458	\$ (1,542)
Property taxes	10,000	10,000	14,388	4,388
Interest	30,850	30,850	482	(30,368)
Range funds	500	500	-	(500)
Equipment rental	-	-	2	2
Total revenues	<u>50,000</u>	<u>50,350</u>	<u>\$ 22,330</u>	<u>\$ (28,020)</u>
Cash balance budgeted	350	-		
Total revenues and cash balance budgeted	<u>\$ 50,350</u>	<u>\$ 50,350</u>		
Expenditures				
Current:				
Personal services/ Taxes	\$ 3,000	\$ 3,000	\$ 2,312	\$ 688
Travel	3,200	3,200	2,567	633
Building	500	500	825	(325)
Office Supplies/postage	800	800	1,680	(880)
Annual meeting and election	800	800	1,197	(397)
Insurance/surety bond	50	50	200	(150)
Utilities	1,700	1,700	2,015	(315)
Community/Education projects	2,550	2,550	1,675	875
Dues and subscriptions	1,000	1,000	600	400
Property taxes	150	150	135	15
Technical assistance	100	100	-	100
Publications	300	300	71	229
Miscellaneous	6,000	6,000	1,826	4,174
Equipment	200	200	-	200
Cost Share	30,000	30,000	6,642	23,358
Total expenditures	<u>\$ 50,350</u>	<u>\$ 50,350</u>	<u>\$ 21,745</u>	<u>\$ 28,605</u>

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

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The District received no revenues for goods and services or grants and contributions during this fiscal year. 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.

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. The District is unable, however, to fully implement GASB Statement 33 since the County Treasurer is unable to provide the District with an amount that represents its share of the uncollected delinquent property taxes as of the date of the balance sheet. 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
HAGERMAN-DEXTER 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

The District's cash consists of demand deposits and short term investments (certificates of deposits) with original maturities of twelve months or less from the date of acquisition.

2. Accounts Receivable

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 Chaves County Treasurer and are remitted to the District in the month following collections.

3. Capital Assets

Capital assets, which include a building, farm equipment and computer equipment, 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 amount spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the District 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

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

life of the asset are not capitalized. The District had no infrastructure required to be capitalized under GASB Statement No. 34.

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

Buildings	39 years
Farm equipment	7 years
Computer equipment	5 years

4. Accounts Payable

The District's accounts payables represent routine monthly bills for services rendered and products purchased that were received during the fiscal year but not paid for until after fiscal year-end.

5. Compensated Absences

As of June 30, 2006, the District employee does not earn any vacation or sick leave.

6. 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, and 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 currently had no restricted net assets at fiscal year end.

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 has no fund balance reservations and has does not require any portion of its fund balance to balance the budget for the subsequent fiscal year.

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

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 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)	\$ 22,330	
Prior year receivables	(119)	
Current year receivables	2,296	
GAAP revenues (Exhibit 4)	<u>\$ 24,507</u>	
Non-GAAP expenditures (Exhibit 5)	\$ 21,745	
Prior year payroll accrual	(444)	
Current year accounts payable	5,929	
Current year accrued payroll	138	
GAAP expenditures (Exhibit 4)	<u>\$ 27,368</u>	

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2006, the District had a carrying amount of deposits of \$69,684. The bank balance for deposits is \$69,759. The difference between

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

the carrying amount and the bank balance of deposits is due to outstanding checks totaling \$75. The bank balance consists of:

<u>First National Bank of Artesia</u>	
Demand deposits	\$ 1,982
Less: FDIC coverage	<u>(1,982)</u>
Amount uninsured	<u>\$ - 0 -</u>
<u>First National Bank of Artesia</u>	
Time deposits	\$ 67,777
Less: FDIC coverage	<u>(67,777)</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, \$-0- of the District's bank balance of \$69,759 was exposed to custodial credit risk. All of the District's deposits were covered by FDIC insurance.

B. Capital Assets

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

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Governmental Activities				
Assets not being depreciated:				
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Total Capital Assets not being depreciated	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Assets being depreciated:				
Building	20,000	-	-	20,000
Farm Equipment	20,155	-	-	20,155
Computer Equipment	1,070		(1,070)	-
Totals at historical cost	<u>41,225</u>	<u>-</u>	<u>(1,070)</u>	<u>40,155</u>
Less accumulated depreciation for:				
Building	(11,195)	(513)	-	(11,708)
Farm Equipment	(7,585)	(2,572)	-	(10,157)
Computer Equipment	(1,070)		1,070	-
Total accumulated depreciation	<u>(19,850)</u>	<u>(3,085)</u>	<u>1,070</u>	<u>(21,865)</u>
Total Capital Assets, Net	<u>\$ 23,875</u>	<u>\$ (3,085)</u>	<u>-</u>	<u>\$ 20,790</u>

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

IV. Other Information

A. Employee Retirement Benefits

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

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 \$5,000 fidelity bond on its Secretary/Treasurer. The District building and equipment is insured for \$46,280. 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 District Clerk's husband rendered services for the District to pick up and deliver the Rolling River Trailer, to assist in the Children's Career Day at Dexter Schools and to paint and install a sign for the District's office. The approved voucher is for \$100, dated May 5, 2006. The service was approved by the Board of Supervisors in the same manner as other goods or services are approved.

The District Chairperson's brother obtained a cost share from the District to fund installation of solar waters. The cost share is for \$2,566.09 dated May 11, 2006. The cost share was approved by the Board of Supervisors in the same manner as other cost share projects are approved.

D. Joint Powers Agreement – Pecos River Salt Cedar Control Project

During the 2002 session, the New Mexico State Legislature appropriated \$2.5 million to the New Mexico Department of Agriculture to remove salt cedar from the Pecos River Basin. As a result of this appropriation, a joint powers agreement was established for this project. The District did not expend any funds pursuant to this Joint Powers Agreement during this fiscal year. The terms of the agreement are summarized as follows:

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Date of agreement:	June 24, 2002
Participants:	New Mexico Association of Conservation Districts and the Carlshad, Chaves, Central Valley, Hagerman-Dexter , DeBaca, Penasco, Guadalupe, Upper Hondo, and Tierra Y Montes Soil and Water Conservation Districts
Responsible party for operations:	Carlshad Soil and Water Conservation District
Description:	Pecos River Salt Cedar Control Project
Beginning and ending date of agreement:	Original Agreement: July 1, 2002 to June 30, 2004 Extension of original agreement (with some revision): July 1, 2004 until the funding or resources cease.
Total estimated amount:	\$4,506,666
Amount expended to date:	\$4,356,168
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	Carlshad Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	New Mexico State University



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Mr. Ray Miles, Chairperson
and Members of the Board of Supervisors
Hagerman-Dexter Soil and Water Conservation District
P.O. Drawer H
Hagerman, New Mexico 88232

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Hagerman-Dexter Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated May 10, 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 control 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 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 and 05-3.

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico State University - Department of Agriculture, the New Mexico Department of Finance and Administration, 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

May 10, 2007

STATE OF NEW MEXICO
HAGERMAN-DEXTER SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 04-2. Unrecorded Date of Cash Receipts – Resolved.
- 05-1. Payment for Goods Not Authorized By The State Procurement Code – Modified and Repeated.
- 05-2. Lack of Supporting Documentation for Expenditures – Resolved.
- 05-3. Disappearance of Capital Assets not Reported to the State Auditor's Office – Repeated and Modified in FY06.

CURRENT YEAR AUDIT FINDINGS

- 05-1. Payment for Goods Not Authorized by the State Procurement Code

Condition

During our test work of cash disbursements, we found one item out of forty-three items tested where the District purchased alcoholic beverages in the amount of \$21.90 to be included as gift items at a meeting.

Criteria

Per state law, Section 6-5-6 NMSA 1978, "A state agency shall determine that a proposed expenditure is for a public benefit and purpose consistent with the related appropriation and is necessary to carry out the statutory mission of the state agency prior to committing the state to the transaction."

Effect

The District is in violation of the State Procurement Code and related laws and regulations. The District did not make a proper determination to substantiate that the payments were for goods and services that were actually needed by the District. There is a lack of control over the cash disbursement process.

Cause

The District was not aware they could not purchase alcoholic beverages for gift items.

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Recommendation

The District needs to substantiate that all expenditures are for the public benefit and purpose consistent with the related appropriation. The District should comply with the State Procurement Code and State Purchasing Regulations. Also, we recommend the District refrain from purchasing alcohol.

District's Response

The District agrees to never let this happen again and will abide by the code laws and regulations, now and in the future. We apologize that it happened again, but will see that it is never repeated.

05-3. Capital Asset Disposition Notification to the State Auditor's Office

Condition

The District donated a Computer Equipment item during FY06. The 30-day written notification was not submitted to the Office of the State Auditor as required by NM State laws and regulations. Also, there was no document certifying that this computer was properly erased before it was donated.

Criteria

Per Sections 13-6-1.A through 13-6-1.C and 13-6-2 NMSA 1978, states:

- A. "The governing authority of each state agency, local public body, school district and state educational institution may dispose of any item of tangible personal property belonging to the that authority and delete the item from its public inventory upon a specific finding by the authority that the item of property is (1) of a current resale value of five thousand dollars (\$5,000) or less; and (2) worn-out, unusable or obsolete to the extent that the item is no longer economical or safe for continued use by the body."
- B. "The governing authority shall, as a prerequisite to the disposition of the any items of tangible personal property; (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the state auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly

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sworn and subscribed under oath by each member of the authority approving the action.”

- C. “A copy of the official finding and proposed disposition of the property sought to be disposed of shall be made a permanent part of the official minutes of the governing authority and maintained as a public record subject to the Inspection of Public Record Act [14-2-4 NMSA 1978].”

Per Section 2.2.2.10 V. NMAC states:

- (2) “In the event a computer is included in the planned disposition, the agency shall “sanitize” all licensed software and any electronic media pertaining to the agency. Hard drive erasure certification is still required even if the asset originally cost less than \$5,000 and was not included in the capital asset inventory. According to the May 5, 2002 memorandum from the Chief Information Technology Security and Privacy Office on this subject, “ordinary file deletion procedures do not erase the information stored on hard disks or other magnetic media. Sanitizing erases or overwrites totally and unequivocally, all information stored on the media.
- (3) “The agency will certify in writing the proper erasure of the hard drive and submit the certification along with the notification of the proposed disposition of property to the State Auditor at least thirty days prior to taking action.”

Effect

The District is in violation of Sections 13-6-1 and 13-6-2 NMAC 1978, Sale of Public Property and 2.2.2.10.V NMAC, Disposition of Property.

Cause

The District Clerk neglected to follow the proper policies and procedures in disposing of capital assets that belong to the District.

Recommendation

We recommend the District notify the Office of the State Auditor thirty days in advance of any dispositions of capital assets before disposal. In accordance with Section 2.2.2.10 V. NMAC, the District will certify in writing the proper erasure of the hard drive and submit the certification along with the notification of the proposed disposition of property to the State Auditor.

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District's Response

The District disagrees with the audit finding and states they notified the State Auditor's Office in a letter dated 3/15/2006.

State Auditor's Rebuttal

A proper disposition of fixed asset letter could not be located on file with the Administration Department of the Office of the State Auditor. The letter the District is referring to was inefficient due to the wording and matter of the information sent. The District included a one-liner sentence in a prior year letter for a response to another finding the previous year auditor requested. The one-liner sentence was so vague and barely visible in the middle of the page. The District never acknowledged the proper policies and procedures of dispositions of fixed assets even within the one-liner sentence.

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EXIT CONFERENCE
JUNE 30, 2006

Financial Statement Preparation

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

Exit Conference

On May 10, 2007, an exit conference was held at the District Office with Ray Miles, Chairperson and Liz Wilson, District Clerk of the Hagerman-Dexter Soil and Water Conservation District. Representing the Office of the State Auditor was Rosemary Whitegeese, Audit Supervisor.