

STATE OF NEW MEXICO

MESA

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2006

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STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Richard L. Shaw	Chairperson
Lawrence A. Herron	Vice-Chairperson
Kimberly Mitchell	Secretary/Treasurer
Cynthia Gutierrez	Supervisor
Wallace Berner	Supervisor

<u>District Personnel</u>	<u>Title</u>
Sherria Fluhman	Administrative Assistant



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. Richard L. Shaw, Chairperson
and Members of the Board of Supervisors
Mesa Soil and Water Conservation District
P. O. Box 68
Roy, New Mexico 87743

We have audited the accompanying financial statements of the governmental activities, the general fund and the budgetary comparison of the Mesa 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 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 May 30, 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The additional schedule listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

May 30, 2007

STATE OF NEW MEXICO
 MESA SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 June 30, 2006

		Governmental Activities
Assets		
Cash	\$	27,130
Interest receivable		124
Capital assets, net		1,286
Total assets	\$	28,540
Liabilities		
Accounts payable	\$	2,699
Accrued payroll		53
Total liabilities		2,752
Net Assets		
Invested in capital assets		1,286
Unrestricted		24,502
Total net assets	\$	25,788

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

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

	Governmental Activities
Program Expenses:	
Conservation:	
Payroll	\$ 5,750
Employee benefits	1,201
Advertising	190
Per diem and travel	1,970
Office expense	377
Meetings and workshops	571
Dues	860
Awards	80
Insurance	100
Information and education	269
Seed	2,550
Depreciation expense	412
Total program expenses	<u>14,330</u>
Program Revenues:	
Charges for services	1,690
Operating grant	250
Total program revenues	<u>1,940</u>
Net program (expenses) revenues	<u>(12,390)</u>
General Revenues:	
NMDA allotment	9,944
Property taxes	2,666
Reimbursements	552
Interest	224
Total general revenues	<u>13,386</u>
Other Financing Sources/Uses	
Other uses - loss on capital assets	(1,936)
Total general revenues and other financing sources/uses	<u>11,450</u>
Change in net assets	<u>(940)</u>
Net assets, beginning of year	30,283
Restatement	<u>(3,555)</u>
Net assets, restated beginning of year	26,728
Net assets, end of year	<u><u>\$ 25,788</u></u>

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

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

Exhibit 3

	General Fund
Assets	
Cash	\$ 27,130
Interest receivable	124
Total assets	\$ 27,254
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 2,699
Accrued payroll	53
Total liabilities	2,752
Fund balance:	
Unreserved, designated for subsequent year's expenditures	6,682
Unreserved, undesignated	17,820
Total fund balance	24,502
Total liabilities and fund balance	\$ 27,254

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

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of net assets are different from the way they are reported in the balance sheet - governmental funds as follows:

Fund balance - total governmental funds (Exhibit 3)	\$ 24,502
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:	
Capital assets, net of accumulated depreciation	<u>1,286</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 25,788</u>

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

STATE OF NEW MEXICO
 MESA 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	\$ 9,944
Property taxes	2,666
Tree Sales	1,690
Operating Grant - Harding County	250
Interest income	224
Reimbursements	552
Total revenues	15,326
Expenditures	
Conservation:	
Current:	
Salary	5,750
Fringe benefits	1,201
Awards	80
Advertisements	190
Dues	860
Information and education	269
Meeting & promotional expenses	571
Insurance	100
Office expenses	377
Travel and per diem	1,970
Seed	2,550
Total expenditures	13,918
Net change in fund balances	1,408
Fund balance, beginning of year	26,649
Restatement	(3,555)
Fund balance, beginning of year as restated	23,094
Fund balance, end of year	\$ 24,502

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

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

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
State allocation	\$ 10,296	\$ 10,296	\$ 9,944	\$ (352)
Property taxes	2,000	2,000	2,678	678
Tree sales	500	500	1,690	1,190
Harding County grant	500	500	250	(250)
Interest income	10	10	117	107
Reimbursements	-	-	536	536
Miscellaneous	-	-	16	16
Total revenues	13,306	13,306	15,231	1,925
Cash balance budgeted	17,919	17,919		
Total revenues and cash balance budgeted	<u>\$ 31,225</u>	<u>\$ 31,225</u>		
Expenditures				
Current:				
Advertising and promotions	\$ 800	\$ 800	\$ 190	\$ 610
Awards	50	50	28	22
Bonding	300	300	100	200
Dues	2,105	2,105	860	1,245
Salaries	8,640	8,640	5,701	2,939
Employee benefits	-	-	1,197	(1,197)
Information and education	1,500	1,500	269	1,231
Meeting and workshops	2,080	2,080	571	1,509
Office expenses	1,800	1,800	728	1,072
Travel and per diem	7,000	7,000	1,970	5,030
Conservation materials - tree/seed	1,550	1,550	1,690	(140)
Board meetings	5,400	5,400	-	5,400
Total expenditures	<u>\$ 31,225</u>	<u>\$ 31,225</u>	<u>\$ 13,304</u>	<u>\$ 17,921</u>

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

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Mesa 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 fiduciary or business-type activities.

STATE OF NEW MEXICO
MESA 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) revenues from the sales of trees and seeds 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. Programs revenues consisted of charges for services for the sale of grass seed in the amount of \$1,690 and an operating grant from Harding County in the amount of \$250.

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
MESA 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 and cash equivalents consist of demand deposits and short term investments (certificates of deposit) with original maturities of six 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. Property Taxes - Receivables

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 Harding County Treasurer and San Miguel County Treasurer and are remitted to the District in the month following collection. The District had no property taxes receivable at year-end.

3. Capital Assets

Capital assets, which include property and equipment (including software), are reported in the governmental activities column in the government-wide financial statements. Capital assets, are defined by state law, are assets with an initial cost of \$5,000 and an estimated useful life of more than one year. The total amounts

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized.

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

Computer equipment 5 years

4. Accounts Payable

The District's accounts payable represent routine monthly bills for services rendered and products purchased in the fiscal year but not paid for until after fiscal year-end. Accounts payable includes amounts owed for the purchase of grass seed.

5. Compensated Absences

As of June 30, 2006, the District employee does not earn any annual 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 – investment 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 provisions or enabling legislation.

Fund balance as reported in Exhibit 3 represents assets less liabilities of the governmental fund. The general fund reports reservations of fund balance for amounts that are not available for appropriation or are legally 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 \$6,682 of its fund balance that has been designated for subsequent year expenditures to balance the FY07 budget.

STATE OF NEW MEXICO
MESA 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 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

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

	General Fund
Non-GAAP revenues (Exhibit 5)	\$ 15,231
Prior year receivables	(3,584)
Restatement of fund balance	3,555
Current year receivables	124
GAAP revenues (Exhibit 4)	<u>\$ 15,326</u>
Non-GAAP expenditures (Exhibit 5)	\$ 13,304
Prior year payable	(2,138)
Current year payables	2,752
GAAP expenditures (Exhibit 4)	<u>\$ 13,918</u>

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2006, the District had a carrying amount of deposits of \$27,130. The bank balances for deposits were \$27,245. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$115. The total bank balance of \$27,245 consisted of the following:

<u>Wells Fargo Bank</u>	
Demand Deposit	\$ 19,245
Less: FDIC coverage	(19,245)
Amount uninsured	<u>\$ -0-</u>
<u>State Farm Bank</u>	
Certificate of Deposit	\$ 8,000
Less: FDIC coverage	(8,000)
Amount uninsured	<u>\$ -0-</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$-0- of the government's bank balance of \$27,245 was exposed to custodial credit risk because it was fully covered by FDIC insurance.

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

B. Receivables

Receivables in the general fund consist of \$124 for interest income receivable. All of the receivables are considered to be fully collectible.

C. Capital Assets

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

Description	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Governmental activities:				
Capital assets:				
Computer equipment	\$ 4,448	\$ -	\$ (2,610)	\$ 1,838
Capital assets, historical cost:	<u>4,448</u>	<u>-</u>	<u>(2,610)</u>	<u>1,838</u>
Accumulated depreciation:				
Computer equipment	(814)	(412)	674	(552)
Less: Accumulated Depreciation	<u>(814)</u>	<u>(412)</u>	<u>674</u>	<u>(552)</u>
Capital Assets, net	<u>\$ 3,634</u>	<u>\$ (412)</u>	<u>\$ (1,936)</u>	<u>\$ 1,286</u>

D. Restatement of Fund Balance

The District's fiscal year 2005 financial statements were overstated by \$3,555 in revenue and accounts receivable. This was due to an accounts receivable being established in General Fund which actually belonged to the Canadian River Riparian Restoration Agency Fund.

IV. Other Information

A. Employee Benefits

The District does not provide its employee any pension plan, deferred compensation plan or post-employment benefits as of June 30, 2006.

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

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 \$10,000 surety bond. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

C. Joint Powers Agreement – Canadian River Riparian Restoration Project

During the 2004 session, the New Mexico State Legislature appropriated \$4.8 million to the New Mexico Department of Agriculture to remove salt cedar and Russian olive from the Rio Grande, Pecos and Canadian River Basins. As a result of this appropriation, a joint powers agreement was established for this project. The terms of the agreement are summarized as follows:

Date of agreement:	June 29, 2004
Participants:	New Mexico Association of Conservation Districts and the Canadian River, Colfax, Guadalupe, Mesa, Mora-Wagon Mound, Northeastern, Tierra Y Montes and Ute Creek Soil and Water Conservation Districts
Responsible party for operations:	Canadian River Soil and Water Conservation District
Description:	Canadian River Riparian Restoration Project
Beginning date of agreement:	July 1, 2004
Total estimated amount:	\$1,433,333
Amount expended to date:	\$551,645
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	Canadian River Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	New Mexico State University

D. Fiscal Agent

On July 18, 2005, the District authorized the turn-over of the Canadian River Riparian Restoration Project – Agency Fund to the Canadian River Soil and Water Conservation District in Tucumcari, New Mexico. This transfer of agency funds to the new fiscal agent resulted in \$551,645 being removed from Mesa Soil and Water Conservation District's books and records.

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2006

	Beginning Balance 6/30/2005	Additions	Deletions	Ending Balance 6/30/2006
Assets				
Cash	\$ 547,114	\$ 4,083	\$ 551,197	\$ -
Due from external parties	448	-	448	-
Total Assets	<u>\$ 547,562</u>	<u>\$ 4,083</u>	<u>\$ 551,645</u>	<u>\$ -</u>
Liabilities				
Accrued payroll	465	-	465	\$ -
Due to other agencies	547,097	4,083	551,180	-
Total Liabilities	<u>\$ 547,562</u>	<u>\$ 4,083</u>	<u>\$ 551,645</u>	<u>\$ -</u>

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



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. Richard L. Shaw, Chairperson
and Members of the Board of Supervisors
Mesa Soil and Water Conservation District
P.O. Box 68
Roy, New Mexico 87743

We have audited the accompanying financial statements of the governmental activities, the general fund and the budgetary comparison of the Mesa Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated May 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 one instance 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 05-02.

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, and 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 30, 2007

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

Finding 04-01. Missing Expenditure Documentation – Resolved.
Finding 05-01. Missing Per Diem and Mileage Forms – Resolved.
Finding 05-02. Capital Asset Disposition Notification to the State Auditor’s Office – Updated and repeated.
Finding 05-03. No Prior Authorization of New Bank Account – Resolved.

CURRENT YEAR AUDIT FINDINGS

05-02. Capital Asset Disposition Notification to the State Auditor’s Office

Condition

The District transferred a digital laptop to Canadian River Soil and Water Conservation District during the time the Agency Fund - Canadian River Riparian Restoration Project monies were transferred. The District did not notify the State Auditor’s Office of its disposition of property prior to the transfer.

Criteria

Per state law, Section 13-6-1 B (2) NMSA 1978, “The governing authority shall, as a prerequisite to the disposition of any items of tangible personal property: 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 sworn and subscribed under oath by each member of the authority approving the action.”

Effect

The District is in violation of Section 13-6-1 B (2) NMSA 1978. In addition, the District may be susceptible to misappropriation of assets for not reporting their dispositions of capital assets correctly.

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

Cause

The District overlooked their own policies and procedures related to dispositions of capital assets.

Recommendation

We recommend that the District notify the State Auditor's Office of any dispositions of capital assets before disposal. In accordance with Section 13-6-1 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of 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 sworn and subscribed under oath by each member of the authority approving the action.

Management's Response

The District has implemented a policy on disposition of capital assets. The District will first notify the State Auditor's Office thirty days prior to taking any action.

STATE OF NEW MEXICO
MESA SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
JUNE 30, 2006

Financial Statement Preparation

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

Exit Conference

On May 30, 2007, an exit conference was held at the District Office with Mr. Richard Shaw, Secretary/Treasurer and Mrs. Sherita Fluhman, Administrative Assistant of the Mesa Soil and Water Conservation District. Representing the Office of the State Auditor was Rosemary Whitegeese, Audit Supervisor. The results of the audit were discussed.