

STATE OF NEW MEXICO
NORTHEASTERN
SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
 NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT
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 JUNE 30, 2006

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

<u>Board of Supervisors</u>	<u>Position</u>
Justin Bennett	Chairperson
Brett Bannon	Vice-Chairperson
Randy Podzemny	Secretary/Treasurer
Gayle Rivale	Member
Larry Mason	Member
<u>District Personnel</u>	<u>Title</u>
Shirley D. Wiseman	Administrative Assistant



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Justin Bennett, Chairperson
and Members of the Board of Supervisors
Northeastern Soil and Water Conservation District
20 North Second Street
Clayton, New Mexico 87415

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Northeastern 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 June 6, 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

June 6, 2007

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

Exhibit 1

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 100,378
Interest Receivable	70
Accounts Receivable	1,214
Capital assets, net of depreciation	<u>600</u>
Total assets	<u>102,262</u>
Liabilities	
Accounts Payable	<u>2,701</u>
Total liabilities	<u>2,701</u>
Net Assets	
Invested in capital assets	600
Unrestricted	<u>98,961</u>
Total net assets	<u><u>\$ 99,561</u></u>

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

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

	Governmental Activities
Program Expenses:	
Conservation:	\$ 178
Advertising	1,219
Taxes	347
Mileage/Per Diem	865
Rent/Office Expense	62,287
Material/Supplies	100
Contract Labor	980
Awards	1,658
Grass Seed	1,605
Dues	343
Educational Aids	205
Insurance/Bonds	8,560
Payroll/Bonus	4,724
Meetings	200
Depreciation expense	83,271
Total program expenses	83,271
Program Revenues:	
Charges for services:	
Conservation Material and Supply Sales	86,970
Grass Seed Sales	4,410
Equipment Rentals	235
Total program revenues	91,615
Net program (expense) revenue	8,344
General Revenues:	
State allocation	7,458
Interest	1,905
Miscellaneous income	590
Total general revenues	9,953
Change in net assets	18,297
Net assets at beginning of year	81,264
Net assets at end of year	\$ 99,561

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

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

	<u>General</u>	<u>Fund</u>
Assets		
Cash and Investments	\$	100,378
Interest Receivable		70
Accounts Receivable		<u>1,214</u>
Total assets	\$	<u><u>101,662</u></u>
Liabilities and fund balance		
Accounts Payable	\$	2,118
Accrued Payroll Taxes		<u>583</u>
Total liabilities		<u>2,701</u>
Fund balance:		
Unreserved, undesignated		<u>98,961</u>
Total fund balance		<u>98,961</u>
Total liabilities and fund balance	\$	<u><u>101,662</u></u>

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

STATE OF NEW MEXICO
NORTHEASTERN 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 - Balance Sheet (Exhibit 3)	\$ 98,961
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>600</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 99,561</u></u>

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

STATE OF NEW MEXICO
 NORTHEASTERN SOIL & 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 Allotment	\$ 7,458
Material & Supply Sales	86,970
Equipment Rentals	235
Grass Seed Sales	4,410
Interest	1,905
Miscellaneous Income	590
Total revenues	101,568
Expenditures	
Conservation:	
Advertising	178
Taxes	1,219
Mileage/Per Diem	347
Rent/Office Expense	865
Material/Supplies	62,287
Contract Labor	100
Awards	980
Grass Seed	1,658
Dues	1,605
Educational Aids	343
Bond Insurance	205
Payroll	8,560
Meetings	4,724
Total expenditures	83,071
Net change in fund balance	18,497
Fund balance beginning of year	80,464
Fund balance end of year	\$ 98,961

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

STATE OF NEW MEXICO
NORTHEASTERN SOIL & 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) \$ 18,497

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	<u>(200)</u>
Change in net assets - Statement of Activities (Exhibit 2)	<u><u>\$ 18,297</u></u>

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

STATE OF NEW MEXICO
 NORTHEASTERN 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
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
State Allotment	\$ 8,500	\$ 8,500	\$ 7,458	\$ (1,042)
Material & Supply Sales	80,000	80,000	87,707	7,707
Grass Seed Sales	10,000	10,000	5,084	(4,916)
Equipment Rentals	1,500	1,500	235	(1,265)
Interest	1,000	1,000	1,841	841
Miscellaneous Income	-	-	590	590
Total Revenues	<u>\$ 101,000</u>	<u>\$ 101,000</u>	<u>\$ 102,915</u>	<u>\$ 1,915</u>
Expenditures				
Current:				
Advertising	\$ 575	\$ 575	\$ 108	\$ 467
Repairs	500	500	-	500
Taxes	5,000	5,000	1,493	3,507
Mileage/Per Diem	2,000	2,000	347	1,653
Rent	500	500	500	-
Public Relations	1,000	1,000	-	1,000
Material/Supplies	60,000	60,000	61,684	(1,684)
Contract labor	500	500	100	400
Equipment purchases	1,000	1,000	-	1,000
Awards	1,000	1,000	928	72
Grass Seed	7,500	7,500	978	6,522
Dues	2,000	2,000	1,605	395
Educational Aids	1,000	1,000	135	865
Bond Insurance	250	250	205	45
Payroll/Bonus	10,000	10,000	8,560	1,440
Meetings	5,000	5,000	4,499	501
Office Expense	500	500	365	135
Total Expenditures	<u>\$ 98,325</u>	<u>\$ 98,325</u>	<u>\$ 81,507</u>	<u>\$ 16,818</u>

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

STATE OF NEW MEXICO
NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Northeastern 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 statement of net assets) report information on all of the non-fiduciary 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
NORTHEASTERN 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 such as tree, seed, and material sales and equipment rental. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds.

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. Grant revenues 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.

Interest associated with the current fiscal period is 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:

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.

STATE OF NEW MEXICO
NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 cash equivalents

The District's cash and cash equivalents consists of demand deposits and short term investments (certificates of deposit) with original maturities of six months or less 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. Compensated Absences

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

3. Capital Assets

Capital assets, which includes equipment is 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. Currently, the District does not own infrastructure that is required to be capitalized and depreciated under GASB Statement 34.

STATE OF NEW MEXICO
NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

Farm equipment	10 years
Computer equipment	5 years

4. Accounts Payables

The District's accounts payable represent routine monthly bills for services rendered and products purchased and received in the current year but not paid for until after fiscal year-end.

5. 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 constraints are placed on net assets 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. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The District currently has no restricted net assets or fund balance reservations.

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.

STATE OF NEW MEXICO
NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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)	\$ 102,915	
Prior year receivables	(2,631)	
Current year receivables	1,284	
GAAP revenues (Exhibit 4)	<u>\$ 101,568</u>	
Non-GAAP expenditures (Exhibit 5)	\$ 81,507	
Prior year payables	(1,137)	
Current year payable	2,701	
GAAP expenditures (Exhibit 4)	<u>\$ 83,071</u>	

III. Detailed Notes on all Funds

A. Cash and cash equivalents

As of June 30, 2006, the District had a carrying amount of deposits of \$100,378. The bank balances for deposits was \$102,995. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$2,617. The total bank balance of \$102,995 consisted of the following:

<u>Farmers & Stockmen Bank</u>	
Demand deposits	\$ 44,745
Less: FDIC coverage	(44,745)
Uninsured balance	<u>\$ - 0 -</u>

STATE OF NEW MEXICO
NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

<u>Farmers & Stockmen Bank</u>	
Certificate of Deposit	\$ 22,172
Less: FDIC coverage	(22,172)
Uninsured balance	<u>\$ - 0 -</u>

<u>First National Bank</u>	
Certificate of Deposit	\$ 36,078
Less: FDIC coverage	(36,078)
Uninsured balance	<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 \$102,995 was exposed to custodial credit risk. All of the District's deposits were covered by FDIC insurance.

B. Accounts Receivable

Accounts receivable consisted of following:

Interest receivable	\$ 70
Accounts receivables- seed sales/material/supplies	<u>1,214</u>
	<u>\$1,284</u>

All receivables are considered to be fully collectible.

C. Capital Assets

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

STATE OF NEW MEXICO
NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Government Activities	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Assets being depreciated:				
Computer equipment	\$ 3,000	\$ -	\$ (2,000)	\$ 1,000
Farm equipment	17,606	-	-	17,606
Totals at historical cost	<u>20,606</u>	<u>-</u>	<u>(2,000)</u>	<u>18,606</u>
Less accumulated depreciation:				
Computer equipment	(3,000)	-	2,000	(1,000)
Farm equipment	(16,806)	(200)	-	(17,006)
Total accumulated depreciation	<u>(19,806)</u>	<u>(200)</u>	<u>2,000</u>	<u>(18,006)</u>
Net capital assets	<u>\$ 800</u>	<u>\$ (200)</u>	<u>\$ -</u>	<u>\$ 600</u>

D. 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 surety bond as well as commercial property coverage. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

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

Justin Bennett, Chairperson
and Members of the Board of Supervisors
Northeastern Soil and Water Conservation District
20 North Second Street
Clayton, New Mexico 87415

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Northeastern Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated June, 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 05-01, 05-02, 06-1, 06-2 and 06-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation

to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we did not consider any 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 item 06-1, 06-2, 06-3 and 06-4.

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

June 6, 2007

STATE OF NEW MEXICO
NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 05-01. Withheld tax payments processed incorrectly – Repeated
- 05-02. Revenues were not properly classified – Repeated
- 05-03. Inaccurate Cash Reconciliation and General Ledger – Resolved

CURRENT YEAR AUDIT FINDINGS

- 05-01. Withheld Tax Payments Processed Incorrectly

Condition

The District withholds taxes from its employee's checks as required by law. The amounts withheld create a payable amount. The payable balance should be reduced when payments are made to the government agencies. The payable amount is not being reduced and the taxes paid are being expensed.

Criteria

Generally accepted accounting principles require that payroll taxes payable be accounted for accurately.

Effect

The District has overstated its expenditures in its general ledger system and is at risk of over/underpaying its payroll taxes.

Cause

The District personnel have not been properly trained in the use of the payroll function in their accounting system.

Recommendation

The District should obtain training for its personnel to correctly withhold taxes from its employee's checks as required by law.

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

Management's Response

The District hired a new clerk and has been sent to training.

05-02. Misclassified Revenues

Condition

A review of all revenue entries into the general ledger revealed that ten revenue entries totaling \$5,084 were misclassified and entered incorrectly into the general ledger.

Criteria

Generally accepted accounting principles require that revenues be recorded accurately into the general ledger.

Effect

Revenues were overstated for some classifications and understated for others.

Cause

The District employee was not properly trained on how to record revenues in the general ledger.

Recommendation

The District should ensure that all revenues are properly reordered in the general ledger.

Management's Response

The District has hired a new clerk and she has been trained on recording all revenues in the general ledger.

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

06-1. Deposits not made within 24 Hours of Receipt

Condition

The District receives a substantial amount of money from the sale of grass seed and trees. The majority is in the form of checks. Checks and cash are not always deposited timely. In one such instance, all receipts received between June 23, 2006 and June 30, 2006 were not deposited until July 27, 2006.

Criteria

Section 6-10-3 NMSA 1978 requires cash receipts to be deposited within twenty-four hours of receipt.

Effect

The District may be subjecting itself to risk of loss and improper handling of cash and checks. Untimely deposits affect cash flows for the District and may increase the potential of fraud and misappropriation of funds.

Cause

The District was not aware of the requirement to deposit funds within 24 hours.

Recommendation

The District should deposit all funds within 24 hours as required by State law.

Management's Response

Receipts are deposited everyday that the clerk is here. It is a part-time position resulting in the clerk only being here two days a week.

06-2. Federal Tax Reporting – Underreported Second Quarter

Condition

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NORTHEASTERN SOIL AND WATER CONSERVATION DISTRICT

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The *Employer's Quarterly Federal Tax Return* (Form 941) for the quarter ended December 31, 2005 under-reported gross wages by \$298. It appears that one entire payroll was not picked up in the total.

Criteria

IRS Code specifically requires accurate federal tax returns supported by the District's financial records.
Effect

The District is in violation of the IRS Code which could result in penalty assessments from the IRS.

Cause

The District reported only three quarters of payroll wages to the IRS based on the Form 941s filed for the fiscal year.

Recommendation

The District should have a qualified person review the 941 Forms and the supporting financial records prior to filing the IRS reports to ensure that the amounts reported are accurate.

Management's Response

The District now has an accountant review the Form 941 before it is sent out.

06-3. Expenditures – Incomplete or Missing Supporting Documentation

Condition

- There were three instances where no supporting documentation, other than the payment voucher, was provided to support expenditures reported and paid by the District. The total amount of these three payment vouchers was \$6,198.
- There was one instance where the invoice had no payment voucher attached and no verification payment was approved by the Board. The total amount of this invoice was \$237.
- There were several instances where the District was unable to locate payment vouchers because they were misplaced.

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SCHEDULE OF FINDINGS AND RESPONSES
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Criteria

Per state law, Section 13-1-158.A NMSA 1978, “No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications.”

Per state law, Section 6-6-3 NMSA 1978, “every local public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division, make all reports as may be required by the local government division and conform to the rules and regulations adopted by the local government division.” The Local Government Division of the Department of Finance and Administration (LGD/DFA) has published *Budgeting and Financial Accounting Manual for Local Governments* as authorized by 6-6-3 NMSA 1978 for Districts to comply with.

Effect

By not requiring receipts and providing supporting documentation, the District may be expending public funds for items that are not valid or do not have a public purpose as required by state statute.

Cause

The District neglected and failed to:

- a. support payment vouchers with invoices, receipts, or remittances before checks were issued;
- b. authorize proper approval for payment vouchers before payments were issued; and
- c. properly file and maintain payment vouchers in the form prescribed by the local government division.

Recommendation

The District should not approve or make any payments until the required supporting documentation is obtained.

Management's Response

The District will not approve or make any payments until the required supporting documentation is obtained.

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06-4. Improper Disposal of Capital Assets and Notification to State Auditor

Condition

The Gateway Computer acquired by the District in 1995 with a historical purchase price of \$2,000 was disposed of in the year 2000. The District failed to notify the Office of the State Auditor of the disposition of property. Furthermore, the assets were still being listed as capital assets inventory through 2005.

Criteria

SAO Rule 2.2.2.10.W (1-3) states: "At least thirty days prior to any disposition of property on the agency inventory list described in SAO Rule 2.2.2.10.Z, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the State Auditor." The rule further gives instructions regarding the disposition of a computer.

Effect

The District disposed of the computer without notifying the State Auditor and without "sanitizing" all licensed software and any electronic media pertaining to the agency.

Cause

The District was not aware of the requirement to notify the Office of the State Auditor of the disposition of property.

Recommendation

We recommend the District notify the State Auditor's Office prior to disposing of capital assets as required by State law.

Management's Response

The District will make sure that they notify the State Auditor prior to disposing of capital assets according to regulation.

STATE OF NEW MEXICO
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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 June 6, 2007 an exit conference was held at the District Office with Barbara Podzemny, Interim Administrative Assistant and Larry Mason, Board Member of the Northeastern Water Conservation District. Representing the Office of the State Auditor was Stephanie Manzanares, Senior Auditor.