

STATE OF NEW MEXICO
OTERO
SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

TABLE OF CONTENTS
JUNE 30, 2006

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents	i	
Official Roster	ii	
FINANCIAL SECTION		
Independent Auditor's Report		1
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	3
Statement of Activities	2	4
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	5
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets		6
Statement of Revenues, Expenditures and Changes In Fund Balance – Governmental Funds	4	7
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance – Governmental Funds to the Statement of Activities		8
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	5	9
Notes to the Financial Statements		10
OTHER REPORTS		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		18
Schedule of Findings and Responses		20
Exit Conference		21

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Bob Nichols	Chairman
Bill Mershon	Vice-Chairman
Robert D. Bishop	Secretary/Treasurer
Robert Bell	Supervisor
Eddie Vigil	Supervisor
Mike Kusmak	Supervisor
Thora Padilla	Supervisor
<u>District Personnel</u>	<u>Title</u>
Vicky Milne	Administrative Assistant



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. Bob Nichols, Chair
and Members of the Board of Supervisors
Otero Soil and Water Conservation District
2920 N. White Sands Blvd.
Alamogordo, New Mexico 88310

We have audited the accompanying financial statements of the governmental activities, the general fund and the budgetary comparison of the Otero 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 *GASB Statement No. 34* that the Governmental Accounting Standards Board has

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 19, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

April 19, 2007

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

	Governmental Activities
Assets	
Cash	\$ 21,727
Accounts receivable	19,036
Inventory	19,473
Prepaid expense	562
Capital assets, net	7,446
Total assets	68,244
Liabilities	
Accounts payable	17,912
Accrued payroll	127
Compensated absences-due within one year	1,587
Total liabilities	19,626
Net Assets	
Invested in capital assets	7,448
Restricted for hydrogeology study	8,767
Unrestricted	32,403
Total net assets	\$ 48,618

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

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

	Governmental Activities
Program Expenses:	
Conservation:	\$
Personnel Services	32,508
Travel & Per Diem	8,405
Operating Expenses	1,863
Dues	1,875
Bond/Insurance	164
Watershed maintenance	433
Information and education	733
Noxious Weed Program	10,776
Brush Control Program	16,061
Hydrogeology study	97,823
Depreciation	1,022
Total program expenses	171,663
Program Revenues:	
Charges for services	20,921
Operating Grants	148,446
Total program revenues	169,367
Net program (expense) revenue	(2,296)
General Revenues:	
NMDA allotment	9,944
Interest	53
Total general revenues	9,997
Change in net assets	7,701
Net assets at beginning of year	40,917
Net assets at end of year	\$ 48,618

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

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

	General Fund
Assets	
Cash	\$ 21,727
Accounts receivable	19,036
Prepaid expense	562
Inventory	19,473
Total assets	\$ 60,798
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 17,912
Accrued payroll	127
Total liabilities	18,039
Fund balance:	
Reserved for inventory	19,473
Unreserved, undesignated	23,286
Total fund balance	42,759
Total liabilities and fund balance	\$ 60,798

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

STATE OF NEW MEXICO
OTERO 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)	\$ 42,759
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Capital assets, net of accumulated depreciation	7,446
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	<u>(1,587)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 48,618</u></u>

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

STATE OF NEW MEXICO
 OTERO 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
Operating Grants:	
Hydrogeology study	113,137
Otero County	35,309
Material sales/Reimbursements	20,921
Interest Income	53
Total revenues	179,364
Expenditures	
Current:	
Personnel Services	32,416
Travel & Per Diem	8,405
Operating Expenses	1,863
Dues	1,875
Bond/Insurance	164
Watershed maintenance	433
Information and education	733
Noxious Weed Program	10,776
Brush Control Program	16,061
Hydrogeology study	103,809
Total expenditures	176,535
Net change in fund balance	2,829
Fund balance beginning of year	39,930
Fund balance end of year	\$ 42,759

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

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

Net change in fund balance - Governmental Funds (Exhibit 4) \$ 2,829

Amounts reported in the Statement of Activities are different because:

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. However, in the governmental funds, expenditures for these items are measured by the amount of financial resources used (actually paid). The increase for the liability not recorded in the balance sheet is: (91)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful life of the asset and reported as depreciation expense as follows:

Capital Outlay	5,985
Depreciation expense	<u>(1,022)</u>

Change in net assets - Statement of Activities (Exhibit 2)	<u><u>\$ 7,701</u></u>
--	------------------------

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

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
State Allocation	\$ 10,140	\$ 9,944	\$ 9,944	\$ -
Federal Grant - BLM Herbicide	10,000	15,000	-	(15,000)
Hydrogeology study	247,500	99,457	95,746	(3,711)
Otero County - reimbursements	35,309	35,309	35,309	-
Material sales/Reimbursements	19,574	28,000	26,053	(1,947)
Interest Income	100	55	53	(2)
Miscellaneous	-	149	-	(149)
Total revenues	<u>\$ 322,623</u>	<u>\$ 187,914</u>	<u>\$ 167,105</u>	<u>\$ (20,809)</u>
Expenditures				
Current:				
Personnel Services	\$ 28,624	\$ 33,624	\$ 33,530	\$ 94
Travel & Per Diem	11,500	10,000	9,907	93
Operating expenses	8,080	5,300	1,856	3,444
Dues	-	-	1,875	(1,875)
Bond	-	-	164	(164)
Information and education	-	-	733	(733)
Watershed maintenance	-	-	432	(432)
Noxious weed program	10,000	30,700	18,108	12,592
Brush control program	4,000	4,000	16,193	(12,193)
Hydrogeology study	235,000	78,261	86,979	(8,718)
Capital outlay	8,000	8,718	-	8,718
Total expenditures	<u>\$ 305,204</u>	<u>\$ 170,603</u>	<u>\$ 169,777</u>	<u>\$ 826</u>

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

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Otero 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
OTERO 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) Program-specific grants that are restricted to meeting the operational or capital requirements of a particular function or segment. 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. 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.

Grant revenues 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:

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
OTERO 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.

Amounts reported as program revenues include 1) charges to customers for herbicide and calendar sales; and 2) operating grants for noxious weed program and brush control. Internally designated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

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.

2. Receivables and Payables

Receivables as of 6/30/2006 in the amount of \$19,036 represent amounts due for herbicide and calendar sales. All receivables are fully collectible, therefore, no allowance for doubtful accounts is recorded. The District's payables represent routine monthly bills for services rendered and products purchased which are received in the current year but not paid for until after fiscal year-end.

3. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. The District maintains an inventory of herbicides that are sold for brush and noxious weed control purpose. The inventories are expended when used.

4. Capital Assets

Capital assets, which include property and equipment (including software), are reported in the governmental activities column in the government-wide financial

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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. There was no infrastructure required to be capitalized and depreciated.

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

Storage Container	10 years
Computer equipment	5 years

5. Compensated Absences

The District's administrative assistant earns 4 hours of vacation leave and sick leave each pay period. Employee is entitled to carry over annual leave from calendar year to calendar year up to 120 hours. The District does not compensate for unused sick leave or compensatory time at termination. The District will compensate the employee for her vacation leave balance at termination of employment.

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, 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 provision 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 has inventory in the amount of \$19,473, which accordingly is reserved.

STATE OF NEW MEXICO
OTERO 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.

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

B. Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial Statements

	General Fund
Non-GAAP revenues (Exhibit 5)	\$ 167,105
Prior year deferred revenue	(6,777)
Current year receivables	19,036
GAAP revenues (Exhibit 4)	<u>\$ 179,364</u>
Non-GAAP expenditures (Exhibit 5)	\$ 169,777
Prior year accounts payable	(7,690)
Prior year payroll accrual	(1,242)
Change in inventory	(1,788)
Current year accounts payable	17,912
Current year payroll accrual	127
Prepaid expense	(561)
GAAP expenditures (Exhibit 4)	<u>\$ 176,535</u>

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2006, the District had a carrying amount of deposits of \$21,728. The bank balances for deposits were \$22,486. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$758. The total bank balance of \$22,486 consisted of the following:

<u>Pioneer Bank</u>	
Demand deposits	\$ 20,308
Less: FDIC coverage	(20,308)
Amount uninsured	<u>\$ -0-</u>

Pioneer Bank

Demand deposits – Brush Control	\$ 2,178
Less: FDIC coverage	(2,178)
Amount uninsured	<u>\$ -0-</u>

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of 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 the District's bank balance was not exposed to custodial credit risk since it is fully insured by the FDIC.

B. Capital Assets

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

Description	Balance		Deletions	Balance
	6/30/2005	Additions		
Governmental Activities:				
Storage container	\$ 2,000	\$ -	\$ -	\$ 2,000
Computer equipment	3,364	5,985	-	9,349
Total at historical cost	5,364	5,985	-	11,349
Less accumulated depreciation for:				
Storage container	567	200	-	767
Computer equipment	2,314	822	-	3,136
Total accumulated depreciation	2,881	1,022	-	3,903
Governmental activities capital assets, net	<u>\$ 2,483</u>	<u>\$ 4,963</u>	<u>\$ -</u>	<u>\$ 7,446</u>

C. Long-Term Debt

The following is a summary of activity in long-term debt for the year ended June 30, 2006 was as follows:

	Balance		Amount due within 1 year
	6/30/05	6/30/06	
Compensated absences	<u>\$ 1,496</u>	<u>\$ 1,587</u>	<u>\$ 1,587</u>
Totals	<u>\$ 1,496</u>	<u>\$ 1,587</u>	<u>\$ 1,587</u>

Compensated absences are liquidated out of the general fund.

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

IV. Other Information

A. Employee 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 fidelity bond on behalf of persons responsible for District assets. The District currently maintains a \$10,000 fidelity bond on its employee. The District has faced no losses during the last several years and is not a defendant in any lawsuit.

C. Related Party Transactions

One Supervisor received \$245 during the fiscal year from the District for performance of annual maintenance on water dams.

D. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.



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. Bob Nichols, Chair
and Members of the Board of Supervisors
Otero Soil and Water Conservation District
2920 N. White Sands Blvd.
Alamogordo, NM 88310

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Otero Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated April 19, 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

April 19, 2007

STATE OF NEW MEXICO
OTERO SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

Finding 05-1 -- Actual Expenditures Exceeded the Approved Budget-Resolved

CURRENT YEAR AUDIT FINDINGS

None.

STATE OF NEW MEXICO
OTERO 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 April 19, 2007, an exit conference was held at the District Office with Ms. Vicky Milne, District Manager of the Otero Soil and Water Conservation District. Representing the Office of the State Auditor was Joyce Sandoval, Audit Supervisor.