

**STATE OF NEW MEXICO**  
**PENASCO**  
**SOIL AND WATER CONSERVATION DISTRICT**

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

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

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2006

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STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER  
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Steve Barley	Chairperson
Tom W. Runyan	Vice-Chairperson
Clarence Forister	Secretary/Treasurer
Catarino Varela	Supervisor
Camille Graham-Figeroa	Supervisor
Hezzie Powell	Supervisor
David Brennand	Supervisor
<u>District Personnel</u>	<u>Title</u>
Tammy Klein	District Manager



# **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

## **INDEPENDENT AUDITOR'S REPORT**

Mr. Steven W. Barley, Chairman  
and Members of the Board of Supervisors  
Penasco Soil and Water Conservation District  
3105 West Main Street  
Artesia, New Mexico 88210-3105

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Penasco 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.

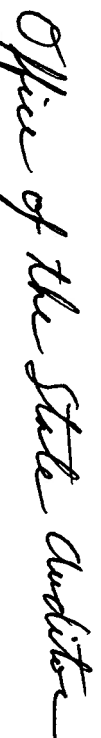
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 18, 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

April 18, 2007

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

	Governmental Activities
<b>Assets</b>	
Cash	\$ 23,284
Restricted cash	8,500
Property taxes receivable	478
Reimbursements receivable	1,268
Capital assets, net	7,140
<b>Total assets</b>	<b>40,670</b>
<b>Liabilities</b>	
Accounts payable	5,615
Accrued payroll	315
Loan payable - current	2,397
Loan payable - long term	6,103
<b>Total liabilities</b>	<b>14,430</b>
<b>Net Assets</b>	
Invested in capital assets	7,140
Restricted for loan	8,500
Unrestricted	10,600
<b>Total net assets</b>	<b>\$ 26,240</b>

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

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

		Governmental Activities
<b>Program Expenses:</b>		
Conservation:	\$	
Salaries	17,268	
Office supplies	887	
Election	66	
Bonding	100	
Dues	1,100	
Youth awards	21	
Travel & per diem	4,500	
Meetings	186	
Office building expenses	4,541	
Office building supplies & maintenance	11,329	
Hope community ditch project	53,399	
Salt Cedar project	10,626	
Windbreak project	408	
Depreciation	2,040	
<b>Total program expenses</b>	<b>106,471</b>	
<b>Program Revenues:</b>		
State operating grant-Hope project	49,900	
State operating grant-Salt Cedar program	2,214	
Charges for services - Tree Sales	440	
<b>Total program revenues</b>	<b>52,554</b>	
<b>Net program (expense) revenue</b>	<b>(53,917)</b>	
<b>General Revenues:</b>		
NMDA allotment	8,949	
Property taxes	12,158	
Interest	141	
<b>Total general revenues</b>	<b>21,248</b>	
<b>Change in net assets</b>	<b>(32,669)</b>	
<b>Net assets at beginning of year</b>	<b>58,909</b>	
<b>Net assets at end of year</b>	<b>\$ 26,240</b>	

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

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

	General Fund
<b>Assets</b>	
Cash	\$ 23,284
Property taxes receivable	478
Reimbursements receivable	1,268
Cash - restricted	8,500
Total assets	\$ 33,530
<b>Liabilities and fund balance</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 5,615
Accrued payroll	315
Total liabilities	5,930
<b>Fund balance:</b>	
Reserved for loan	8,500
Unreserved, undesignated	19,100
Total fund balance	27,600
Total liabilities and fund balance	\$ 33,530

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





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

Exhibit 4

	General Fund
<b>Revenues</b>	
State allocation	\$ 8,949
Property taxes	12,158
State operating grant-Hope project	49,900
State operating grant-Salt Cedar program	2,214
Tree Sales - Windbreak project	440
Interest	141
Total revenues	73,802
<b>Expenditures</b>	
Conservation:	
Salt Cedar project	10,626
Hope community ditch project	53,399
Windbreak project	408
Salaries	17,268
Office supplies	887
Election	66
Bonding	100
Dues	1,100
Youth awards	21
Travel & per diem	4,500
Meetings	186
Office building expenses	4,541
Office building supplies & maintenance	11,329
Total expenditures	104,431
Deficiency of revenues under expenditures	(30,629)
<b>Other Financing Sources (Uses)</b>	
Loan proceeds	8,500
Total other financing sources (uses)	8,500
Net change in fund balance	(22,129)
Fund balance beginning of year	49,729
Fund balance end of year	\$ 27,600

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



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

Exhibit 5

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Revenues</b>				
State allocation	\$ 7,500	\$ 7,200	\$ 8,949	\$ 1,749
Property taxes	7,100	17,600	12,757	(4,843)
Tree Sales - Windbreak project	1,000	500	440	(60)
Brush control - loan proceeds	750	8,500	8,500	-
State operating grant-Hope project	49,900	49,900	49,900	-
State operating grant-Salt Cedar program	2,500	12,000	17,415	5,415
Building funds	20,000	20,000	-	(20,000)
Interest	-	-	193	193
Payroll reimbursements from Central Valley	13,500	13,750	9,623	(4,127)
Building expenses reimbursements from Central Valley	13,500	13,750	3,623	(10,127)
Total revenues	<u>115,750</u>	<u>143,200</u>	<u>111,400</u>	<u>\$ (31,800)</u>
Total cash balance budgeted	-	20,000		
Total revenues and cash balance budgeted	<u>\$ 115,750</u>	<u>\$ 163,200</u>		
<b>Expenditures</b>				
Current:				
Salaries	\$ 25,000	\$ 30,000	\$ 27,134	\$ 2,866
Dues	1,100	1,100	1,100	-
Office supplies	500	1,000	887	113
Bonding	100	100	100	-
Election	250	75	66	9
Public education	1,500	250	150	100
Annual awards	250	75	21	54
Travel & per diem	2,500	5,500	5,196	304
Meetings	500	500	336	164
Equipment	500	75	-	75
Advertising & legal	250	75	-	75
Office building expenses	7,500	9,000	8,601	399
Office building supplies & maintenance	20,000	20,000	9,457	10,543
Windbreak tree program	1,000	500	408	92
Brush control program	750	150	-	150
Newsletter	250	75	-	75
Hope community ditch project	49,900	75,000	66,752	8,248
Salt Cedar project	2,500	12,000	10,812	1,188
Total expenditures	<u>\$ 114,350</u>	<u>\$ 155,475</u>	<u>\$ 131,020</u>	<u>\$ 24,455</u>

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

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Penasco 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 nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, the District does not have any business-type or fiduciary activities.

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

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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 reimbursements for shared expenses, and 2) operating grants and contributions from state agencies and legislative appropriations 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. Program specific operating grants and contributions consist of the Hope Project State Grant and Salt Cedar Program State Grant. Charges for services consist of tree sales for the Windbreak Project.

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, grants 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.

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

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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 three 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. Restricted Assets

The Cottonwood Walnut Creek Watershed District loan is set aside as restricted assets on the balance sheet because they are maintained in a separate line item and their use is limited by the agreement between the Central Valley and Penasco Soil and Water Conservation Districts and Regents of New Mexico State University.

3. Receivables and Payables

Property taxes attach an enforceable lien as of January 1. Taxes are payable in equal semi-annual installments on November 10 and April 10 of the subsequent year. The taxes become delinquent thirty days after the due date. The taxes are collected by the Eddy, Chaves and Otero County Treasurers and are remitted to the District in the month following collection.

The District's accounts payable represent routine monthly bills for services rendered and products purchased/received in the current year but not paid for until after fiscal year-end. At June 30, 2006, payables consist of \$315 for accrued payroll and \$5,615 to vendors.

4. Capital Assets

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

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized. The District has no infrastructure which is required to be reported pursuant to GASB statement no. 34.

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

Office Building	25 years
Storage Building	15 years
Farm equipment	5 years

5. Compensated Absences

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

6. Net Assets and Fund Balance

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of three components – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, 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.

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 restricted net assets in the amount of \$8,500 because their use is restricted by the lender. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are reserved for repayments to the Cottonwood Walnut Creek Watershed District.

**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



STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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

	<u>General Fund</u>
Non-GAAP revenues (Exhibit 5)	\$ 111,400
Prior year receivables	(16,305)
Not payroll revenue for GAAP	(9,623)
Not building revenue for GAAP	(4,916)
Current year receivables	<u>1,746</u>
GAAP revenues (Exhibit 4)	<u>\$ 82,302</u>

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

	<u>General Fund</u>
Non-GAAP expenditures (Exhibit 5)	\$ 131,020
Prior year accounts payable	(17,422)
Prior year payroll accrual	(558)
Not payroll expenses for GAAP	(9,623)
Not building expenses for GAAP	(4,916)
Current year accounts payable	5,615
Current year accrued payroll	<u>315</u>
GAAP expenditures (Exhibit 4)	<u><u>\$ 104,431</u></u>

When the District receives cash relating to receivables they record the transaction on a cash basis to revenue instead of a reduction to receivables as required by GAAP. Payables are recognized as expenditures in the year the goods or service are received on the GAAP basis. The District does not recognize expenditures until the cash transaction occurs. Interest receivable is recorded as revenue by the District when the cash is received instead of recording the interest revenue when the interest is earned as required by GAAP the District had no interest receivables as of June 30, 2006. Payroll and building expenses were booked to expenditures on a cash basis as the payments were made. There were expenditures in these two line items that were paid on behalf of Central Valley Soil and Water Conservation District (CV). CV then reimbursed the District and the reimbursements were booked as revenue on a cash basis to the Districts books. On a modified and full accrual basis of accounting the expenses and revenue are not treated as an obligation or responsibility of the District so the expenses were removed from the modified accrual basis along with the offsetting revenue entries. Therefore, the revenue received from CV for the payroll and building expenditures were eliminated on the GAAP basis.

**III. Detailed Notes on all Funds**

**A. Cash**

As of June 30, 2006, the District had a carrying amount of deposits of \$31,784. The bank balances for deposits were \$32,419. The difference between the carrying amount and the bank balance of deposits is due to deposits in transit of \$8,500 and outstanding checks of \$9,135. The total bank balance consisted of the following:

<u>Wells Fargo</u>	
Checking Accounts	\$ 22,044
Less: FDIC coverage	<u>(22,044)</u>
Amount uninsured	<u><u>\$ -0-</u></u>

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

<u>Wells Fargo</u>	
Certificate of Deposit	\$ 10,375
Less: FDIC coverage	<u>(10,375)</u>
Amount uninsured	<u>\$ -0-</u>

*Custodial Credit Risk* – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District does not have a deposit policy for custodial credit risk. None of the District’s deposits are exposed to custodial credit risk since all deposits are insured by the FDIC.

B. Accounts Receivable

Accounts receivable consist of the following amounts which are considered fully collectible:

Property taxes	\$ 478
Reimbursements	<u>1,268</u>
Total	<u>\$ 1,746</u>

C. Capital Assets

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

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
<u>Governmental activities:</u>				
Office Building	\$ 51,000	\$ -	\$ -	\$ 51,000
Storage Building	4,000	-	-	4,000
Farm Equipment	1,600	-	-	1,600
Capital assets, historical cost:	<u>56,600</u>	-	-	<u>56,600</u>
Accumulated depreciation:				
Office Building	41,820	2,040	-	43,860
Storage Building	4,000	-	-	4,000
Farm Equipment	1,600	-	-	1,600
Less: Accumulated Depreciation	<u>47,420</u>	<u>2,040</u>	-	<u>49,460</u>
Capital Assets, net	<u>\$ 9,180</u>	<u>\$ (2,040)</u>	\$ -	<u>\$ 7,140</u>

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

D. Long-Term Debt

Note Payable

The District entered into a loan agreement dated June 30, 2006 to finance the costs of developing a Grid Spraying Machine for Brush Control with Cottonwood Walnut Creek Watershed District. The proceeds of this loan will be used to help finance a project with New Mexico State University to develop a proto-type grid spraying machine for use in brush control projects. The interest rate of the loan is five percent. The following are the debt service requirements to maturity for this loan:

<u>Changes in Long-term Liabilities</u>					
	Beginning Balance 6/30/2005	Additions	Deletions	Ending Balance 6/30/2006	Due Within One Year
Cottonwood					
Walnut Creek					
Watershed					
District Loan	\$ -	\$ 8,500	\$ -	\$ 8,500	\$ 1,972
	<u>\$ -</u>	<u>\$ 8,500</u>	<u>\$ -</u>	<u>\$ 8,500</u>	<u>\$ 1,972</u>

IV. Other Information

A. 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 OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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.

**B. Joint Powers Agreement – Pecos River Salt Cedar Control Project**

During the 2002 session, the New Mexico State Legislature appropriated \$2.5 million to the New Mexico Department of Agriculture to remove salt cedar from the Pecos River Basin. As a result of this appropriation, a joint powers agreement was established for this project. The terms of the agreement are summarized as follows:

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



# **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

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

Mr. Steven W. Barley, Chairman  
and Members of the Board of Supervisors  
Penasco Soil and Water Conservation District  
3105 West Main Street  
Artesia, New Mexico 88210-3105

We have audited the accompanying financial statements of the governmental activities, the general fund and the budgetary comparison of the Penasco Soil and Water Conservation District (District) as of and for the year ended June 30, 2006 and have issued our report dated April 18, 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. A reportable condition is described in the accompanying schedule of findings and responses as item 06-1.

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

2113 Warner Circle, Santa Fe, New Mexico 87505-5499  
(505) 476-3800 · (800) 432-5517 · Fax (505) 827-3512

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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, the reportable conditions described above are not considered 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 that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 05-2 and 06-1.

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

April 18, 2007

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

Finding 05-1. Inaccurate Payroll – Resolved.

Finding 05-2. Late filing of reports to IRS and NMDOL – Modified and Repeated.

CURRENT YEAR AUDIT FINDINGS

Finding 05-2. Late Filing of Reports to Department of Treasury - Internal Revenue Service

Condition

During our review of payroll and expenditure testing, we noted the filing dates for the Form 941, Employer's Quarterly Federal Tax Returns were not written on the forms. Therefore, we were unable to verify timely filing of these tax forms.

Criteria

The Department of the Treasury – Internal Revenue Service Publication 15 (Circular E) requires that employers file Form 941, Employer's Quarterly Federal Tax Return by April 30, July 31, October 31, and January 31.

Effect

The District could be in non-compliance with IRS Publication 15 (Circular E). The IRS may impose interest and penalties for late filing of quarterly Form 941 reports.

Cause

The District Manager neglected to record the date the District filed the on-line Form 941, Employer's Quarterly Federal Tax Returns.

Recommendation

We recommend the District file Form 941, Employer's Quarterly Federal Tax Returns by the date required by IRS Publication 15 (Circular E) and to demonstrate its compliance by dating the report when it is filed.



STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

District's Response

Every effort will be made in the future to file the payroll tax reports on time to avoid any penalties and interest. This is currently being done.

Finding 06-1. No Supporting Documentation for Expenditures

Condition

During our audit of disbursements, we noted the following:

1. Supporting documentation for 3 out of 35 expenditure items tested could not be found. These three expenditure items totaled to \$1,658.
2. There was one instance where a time report did not have a signature of authorization.
3. There was one instance found where a \$64 check issued to the District Manager for mileage reimbursement had no travel voucher with authorized signatures or any supporting documentation. Also, in general, there was no date written on vouchers.

Criteria

Per state law, Section 6-5-8 NMSA 1978, "All claims for payment of public money shall be made upon a public voucher. All public vouchers shall be in the form and contain the information required by the division. All purchase vouchers for goods and services, other than personnel, shall be accompanied by supporting invoices and documentation required by the division. Vouchers for the reimbursement of public officers and employees shall have receipts attached for all money claimed, except that travel advance or reimbursement vouchers for claims of mileage and per diem at standard rates need not be accompanied by receipts. All vouchers shall be certified as true and correct by the officer or employee designated to approve payments of claims against state agencies and local public bodies, including public schools.

In accordance with the State's Per Diem and Mileage Act, the Regulations Governing the Per Diem and Mileage Act (Section 2.42.2 of the New Mexico Administration Code) shall apply when the person seeks payment of per diem and mileage, or reimbursement of expenses in the capacity of a salaried or non-salaried public officer or employee of the governmental entity. Per Diem and mileage forms, and vouchers are required to be completed before the public employee or official can be reimbursed for per diem and mileage expenses.

STATE OF NEW MEXICO  
PENASCO SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

Cause

The Board of Supervisors neglected to ensure the District Manager and the District was in compliance with the State of New Mexico Per Diem and Mileage Act, and applicable regulations and documentation requirements.

Effect

The District is in violation of the State Procurement Code and related laws and regulations. The District was unable to substantiate the payments were for goods and services and were actually needed or received by the District. Fraud or misappropriation could occur if payments are made without proper supporting documentation. There is a lack of control over the procurement and cash disbursement process.

The District is in violation of the Regulations Governing the Per Diem and Mileage Act (Section 2.42.2 of the New Mexico Administration Code).

Recommendation

The District needs to locate the missing documentation to substantiate the expenditures. The District should develop and implement written policies and procedures to comply with the State's procurement laws and regulations. Before any amounts are paid to anyone, the District needs to document the date the goods or services were received and by whom. The District should not pay for anything unless an invoice exists, the goods or services have been received, and a payment voucher has been approved by the Board of Supervisors. The District needs to file and maintain all expenditure documentation for a minimum of three years.

District's Response

The District will work to ensure supporting documentation for all expenditures are signed and verified as needed and attached to the District's purchase vouchers. Per Diem and Travel Regulations will be followed and all payments for travel and per diem will only be paid when a travel voucher is properly filled out and approved. All documentation for expenditures for the District will be filed and kept for the time period designated by law.

STATE OF NEW MEXICO  
PENASCO 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 18, 2007, an exit conference was held at the District Office with Mr. Steve Barley, Chairman, and Tammy Klein, District Manager, of the Penasco Soil and Water Conservation District. Representing the Office of the State Auditor was Joyce Sandoval, Audit Supervisor.