

STATE OF NEW MEXICO

UTTE CREEK

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2006

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STATE OF NEW MEXICO
UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

<u>Board of Supervisors</u>	<u>Position</u>
Robert L. Casados	Chairperson
Bill Brockman	Vice-Chairperson
Cora Libby Crews	Secretary/Treasurer
Harry Hopson	Supervisor
David Whatley	Supervisor

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



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Mr. Robert L. Casados, Chairperson
and Members of the Board of Supervisors
Ute Creek Soil and Water Conservation District
P. O. Box 68
Roy, New Mexico 87743

We have audited the accompanying financial statements of the governmental activities, the general fund and the budgetary comparison of the Ute Creek 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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 30, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

May 30, 2007

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

	Governmental Activities
Assets	
Cash	\$ 59,830
Accounts receivable	2,420
Interest receivable	379
Capital assets, net	5,101
Total assets	<u>67,730</u>
Liabilities	
Accounts payable	659
Accrued interest	31
Accrued payroll	1,008
Total liabilities	<u>1,698</u>
Net Assets	
Invested in capital assets	5,101
Unrestricted	60,931
Total net assets	<u>\$ 66,032</u>

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

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

	Governmental Activities
Program Expenses:	
Conservation:	
Awards	\$ 132
Dues	1,280
Personal services	10,454
Education/Information/Training	2,156
Meeting/Special meeting	4,842
Travel	4,002
Conservation project	249
Contract labor/Salt Cedar Restoration Project	359,875
Office supplies	1,572
Loan payment - interest & fees	56
Depreciation expense	1,137
Insurance	103
Total program expenses	385,858
Program Revenues:	
Operating grants	327,007
Total program revenues	327,007
Net program (expense) revenue	(58,851)
General Revenues:	
State allocation	9,944
Donations - BASF Chemical Company	16,515
Donations - Private Benevolence	11,340
Interest	1,428
Miscellaneous	710
Loan proceeds	25,000
Special item - loss on capital asset	(1,038)
Total general revenues and special item	63,899
Change in net assets	5,048
Net assets at beginning of year	60,984
Net assets at end of year	\$ 66,032

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

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

	General Fund
Assets	
Cash	\$ 59,830
Accounts receivable	2,420
Interest receivable	379
Total assets	\$ 62,629
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 659
Accrued interest	31
Accrued payroll	1,008
Total liabilities	1,698
Fund balance:	
Unreserved, designated for subsequent year's expenditures	33,884
Unreserved, undesignated	27,047
Total fund balance	60,931
Total liabilities and fund balance	\$ 62,629

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

STATE OF NEW MEXICO
UTE CREEK 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)	\$ 60,931
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>5,101</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 66,032</u></u>

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

STATE OF NEW MEXICO
 UTE CREEK 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	
Grant - Harding County	\$ 250
State allocation	9,944
Donations - BASF Chemical Company	16,515
Donations - Private Benevolence	11,340
Grant - NM Department of Game & Fish	326,757
Interest	1,428
Miscellaneous	710
Total revenues	366,944
Expenditures	
Conservation:	
Current:	
Awards	132
Dues	1,280
Personal services	10,454
Education/Information/Training	2,156
Meeting/special meeting	4,842
Travel	4,002
Conservation project	249
Office supplies	1,572
Loan payment - interest and fees	56
Insurance	103
Contract labor/Salt Cedar Restoration Project	359,875
Total expenditures	384,721
Deficiency of revenues under expenditures	(17,777)
Other Financing Sources (Uses)	
Loan Proceeds	25,000
Proceeds from sale of capital assets	2,650
Total other financing sources (uses)	27,650
Net change in fund balance	9,873
Fund balance, beginning of year	51,058
Fund balance, end of year	\$ 60,931

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

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

Net change in fund balance-Governmental Funds (Exhibit 4) \$ 9,873

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays -
Depreciation expense (1,137)

In the statement of activities only the loss on the sale of the capital asset is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the book value of the capital asset sold.

(3,688)
Change in net assets - Statement of Activities (Exhibit 2) \$ 5,048

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

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

Exhibit 5

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
State allocation	\$ 10,296	\$ 10,296	\$ 9,944	\$ (352)
Harding County grant	-	-	250	250
Interest	600	600	1,148	548
Donations	-	18,232	27,855	9,623
Sale of capital asset	7,000	9,650	2,650	(7,000)
NM Game & Fish grant	275,933	352,076	324,337	(27,739)
Loan Proceeds	-	-	25,000	25,000
Miscellaneous	-	-	710	710
Total revenues	<u>293,829</u>	<u>390,854</u>	<u>391,894</u>	<u>\$ 1,040</u>
Total cash balance budgeted	4,407	4,407		
Total revenues and cash balance budgeted	<u>\$ 298,236</u>	<u>\$ 395,261</u>		
Expenditures				
Current:				
Awards	\$ 150	\$ 150	\$ 81	\$ 69
Dues	1,400	1,400	1,280	120
Office supplies	400	3,915	1,345	2,570
Insurance	110	110	103	7
Payroll	9,543	23,660	9,795	13,865
Payroll taxes	-	-	-	-
Education/Information/Training	2,200	2,450	2,156	294
Meeting/Special meeting	4,000	4,000	4,842	(842)
Travel	3,000	6,000	4,002	1,998
Loan fees	-	-	25	(25)
Watershed maintenance	500	500	249	251
Contract Labor/Salt Cedar Restoration Project	275,933	352,076	359,494	(7,418)
Project/Grant	1,000	1,000	-	1,000
Total expenditures	<u>\$ 298,236</u>	<u>\$ 395,261</u>	<u>\$ 383,372</u>	<u>\$ 11,889</u>

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

STATE OF NEW MEXICO
UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Ute Creek 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). The District, a phase three government, was required to implement GASB Statement 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* in fiscal year 2004. 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

STATE OF NEW MEXICO
UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The District currently does not receive any property taxes. Program revenues consisted of two operating grants, one from the New Mexico Game and Fish Department and the other from Harding County.

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. 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.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All

STATE OF NEW MEXICO
UTTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 fund: the general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity, if applicable, has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Net Assets and Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents consist of demand deposits and short term investments (certificate 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. 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. There was no infrastructure required to be capitalized and depreciated.

STATE OF NEW MEXICO
UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Equipment of the District is depreciated using the straight line method over the following estimated useful life:

Agricultural equipment	7 years
Computer	5 years

3. Compensated Absences

As of June 30, 2006, the District does not offer its employee any annual vacation or sick leave benefits.

4. 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 provisions or enabling legislation.

Fund balance as reported in Exhibit 3 represents assets less liabilities of the governmental fund. The general fund reports reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific use. Designations may be established to indicate tentative plans for resource utilization in a future period. The District had no restricted net assets or fund balance reservations, but does have \$33,884 of its fund balance that has been designated for subsequent year expenditures to balance the FY 07 budget.

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:

STATE OF NEW MEXICO
 UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2006

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the approved budget.

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. Encumbrance accounting is not utilized by the District.

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

	General	
	Fund	
Non-GAAP revenues (Exhibit 5)	\$ 391,894	
Prior year receivables	(99)	
Adjustment for other financing sources	(27,650)	
Current year receivables	2,799	
GAAP revenues (Exhibit 4)	<u>\$ 366,944</u>	
Non-GAAP expenditures (Exhibit 5)	\$ 383,372	
Prior year payable	(349)	
Current year payables	1,698	
GAAP expenditures (Exhibit 4)	<u>\$ 384,721</u>	

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2006, the District had a carrying amount of deposits of \$59,830. The bank balances for deposits were \$124,424. The difference

STATE OF NEW MEXICO
 UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2006

between the carrying amount and the bank balance of deposits is due to outstanding checks of \$74,420 and a deposit in transit of \$9,826. The total bank balance of \$124,424 consisted of the following:

<u>First National Bank of NM</u>	
Demand deposits	\$ 77,304
Less: FDIC coverage	<u>(77,304)</u>
Uninsured amount	<u>\$ - 0 -</u>
<u>Farmers and Stockmens Bank</u>	
Certificate of Deposit	\$ 47,120
Less: FDIC coverage	<u>(47,120)</u>
Uninsured amount	<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, none of the government's bank balance of \$124,424 was exposed to custodial credit risk. All of the District's deposits were insured by FDIC.

B. Capital Assets

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

	6/30/2005		6/30/2006
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>
			<u>Balance</u>
Governmental activities:			
Equipment	\$ 11,835	\$ -	\$ (4,989)
Totals at historical cost	11,835	-	(4,989)
Less accumulated depreciation for:			
Equipment	(1,909)	(1,137)	1,301
Total accumulated depreciation	(1,909)	(1,137)	1,301
Capital assets, net	<u>\$ 9,926</u>	<u>\$ (1,137)</u>	<u>\$ (3,688)</u>
			<u>\$ 5,101</u>

STATE OF NEW MEXICO
 UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2006

C. Short-term debt

The District secured a loan from Farmers & Stockmens Bank on May 22, 2006 to compensate their vendors on the New Mexico Department of Game and Fish Project. The District received the loan proceeds on June 23, 2006. The term of this secured loan is approximately 10 ½ months. The Game and Fish grant is scheduled to be closed around July 1, 2007. The grant requires the grantor to hold a specific portion of the funds until the final report has been submitted, which should be around June 30, 2006. The loan is a single payment loan scheduled to mature on April 1, 2007 at an interest rate of 6.45%.

Short-term debt activity for the year ended June 30, 2006, was as follows:

	<u>Beginning</u>		<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>
			<u>Balance</u>
Farmers & Stockmens			
Bank Loan	\$ -	\$25,000	\$ -
			\$25,000

IV. Other Information

A. Employee Retirement Benefits and Post-Employment Benefits

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

B. Risk Management

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,050,000 for 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 \$20,000 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.

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government.

STATE OF NEW MEXICO
 UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2006

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.

D. Joint Powers Agreement – Canadian River Riparian Restoration Project

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

Date of agreement:	June 29, 2004
Participants:	New Mexico Association of Conservation Districts and the Canadian River, Colfax, Guadalupe, Mesa, Mora-Wagon Mound, Northeastern, Tierra Y Montes and Ute Creek Soil and Water Conservation Districts
Responsible party for operations:	Canadian River Soil and Water Conservation District
Description:	Canadian River Riparian Restoration Project
Beginning date of agreement:	July 1, 2004
Total estimated amount:	\$2,067,646
Amount expended to date:	\$1,572,215
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	Canadian River Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	New Mexico State University



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. Robert L. Casados, Chairperson
and Members of the Board of Supervisors
Ute Creek Soil and Water Conservation District
P. O. Box 68
Roy, New Mexico 87743

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The 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

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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, we believe that none of the reportable conditions described above, is a 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 06-2.

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

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

May 30, 2007

STATE OF NEW MEXICO
UTTE CREEK SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

- 04-1. No Supporting Documentation for Expenditures – Resolved.
- 04-2. Missing Per Diem and Mileage Forms - Resolved

CURRENT YEAR AUDIT FINDINGS

- 06-1. Inaccurate Cash Reconciliation and No Policy for Stale Date Checks

Condition

The District approved a voucher on 2/13/06 for check number 1587 in the amount of \$20 payable to NM Watershed Coalition for annual membership dues. The check was carried over as an outstanding check through June 30, 2006 but was later voided from the check register when it failed to be cashed.

Criteria

Good accounting practices require accurate cash reconciliations. Checks should be carried over as outstanding unless a policy is in place to stale date the checks after a certain period of time.

Effect

Inaccurate cash reconciliations could be misleading and affect the cash balance to be overstated or understated for the District's books and records. Also, the lack of a policy for stale date checks may cause inconsistent cut-off dates.

Cause

The District voided a check in the amount of \$20 on the District's check register. However, that same check was still being included as a reconciling item or as an outstanding check on the June 30, 2006 cash reconciliation. Therefore, the cash reconciliation at June 30, 2006 was inaccurate. No policy exists for stale-dated checks after a certain period of time.

Recommendation

We recommend that the District adopt a policy to stale date checks after one year.

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JUNE 30, 2006

District's Response

The District has adopted a policy regarding voiding checks as well as a policy for state-dated checks with guidelines regarding outstanding checks that are more than one (1) year old.

06-2. Disposition of Capital Assets

Condition

The District failed to notify the Office of the State Auditor about the disposition of an Arctic Cat 300 4x4 ATV acquired by the District on October 2, 2003 and sold on July 27, 2005 in the amount of \$2,650.

Criteria

Notification to the State Auditor is required by Sections 13-6-1 and 13-6-2 NMSA 1978. State Auditor 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."

Effect

The District is in violation of Sections 13-6-1 and 13-6-2 NMSA 1978. Lack of compliance with these laws could lead to the improper deletion and disposition of capital assets.

Cause

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

Recommendation

At least 30 days prior to the disposition of property, the District should notify the State Auditor's Office about what they are disposing of, why the method of disposition, and

STATE OF NEW MEXICO
UTE CREEK SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

proof of approval by the Board of Supervisors. Also, the District should review the applicable laws and supplement procedures to ensure they are complied with.

District's Response

The District will notify the State Auditor's Office at least 30 days prior to disposing of District property.

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 May 30, 2007, an exit conference was held at the District Office with Robert L. Casados, Chairperson and Sherrita Fluhman, Administrative Assistant of the Ute Creek Soil and Water Conservation District. Representing the Office of the State Auditor was Stephanie Manzanares, Staff Auditor. The results of the audit were discussed.