

**STATE OF NEW MEXICO**  
**UTE CREEK SOIL & WATER CONSERVANCY DISTRICT**  
**AUDIT REPORT**  
**For the Year Ended June 30, 2011**  
**(with Auditor's Report Thereon)**

**RICE & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

STATE OF NEW MEXICO  
UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
AUDIT REPORT  
For The Year Ended June 30, 2011  
(with Auditor's Report Thereon)

STATE OF NEW MEXICO  
Ute Creek Soil & Water Conservancy District  
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STATE OF NEW MEXICO  
UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
Official Roster  
Year Ended June 30, 2011

Board of Supervisors

<u>Name</u>	<u>Title</u>
Mr. Terry Mitchell	Chairman
Mr. Harry Hopson	Vice-Chairman
Ms. Caitlin Holmes	Secretary/Treasurer
Mr. Roy Mitchell	Supervisor
Ms. Mary Libby Campbell	Supervisor

District Personnel

Ms. Terica Jeffrey	Administrative Assistant
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*Rice and Associates, C.P.A.*

CERTIFIED PUBLIC ACCOUNTANTS

11805 Menaul NE

Albuquerque, NM 87112

TAX PLANNING

TAX PREPARATION

FAX (505) 294-8904

AUDITING  
BOOKKEEPING  
(505) 292-8275

**INDEPENDENT AUDITOR'S REPORT**

Mr. Hector H. Balderas  
New Mexico State Auditor  
and  
Board Chairman and Board Supervisors  
Ute Creek Soil & Water Conservancy District  
Roy, New Mexico

We have audited the accompanying financial statements of the governmental activities and the budgetary comparison for the General Fund of the Ute Creek Soil & Water Conservancy District, as of and for the year ended June 30, 2011, which collectively comprise the Conservancy District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ute Creek Soil & Water Conservancy 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ute Creek Soil & Water Conservancy District's internal control over financial reporting. According, we express no such opinion. 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 of the Ute Creek Soil & Water Conservancy District, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011 on our consideration of the Ute Creek Soil & Water Conservancy District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

The Conservancy District has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Read & Associates, LLP*

December 22, 2011

**FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
 UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
 Statement of Net Assets  
 June 30, 2011

	Governmental Activities
<b>ASSETS</b>	
Current Assets	
Cash	\$ 288,208
Total current assets	288,208
Capital Assets	
Equipment	-
Total capital assets	-
Less accumulated depreciation	-
Total capital assets (net of accumulated depreciation)	-
Total assets	\$ 288,208
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts payable	\$ -
Total current liabilities	-
Net Assets	
Invested in capital assets	-
Unrestricted	288,208
Total net assets	288,208
Total liabilities and net assets	\$ 288,208

The accompanying notes are an integral part of these financial statements.



STATE OF NEW MEXICO  
 UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
 Statement of Activities  
 Year Ended June 30, 2011

Statement 2

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 575,755	\$ -	\$ 600	\$ -
Total governmental activities	575,755	-	600	(575,155)
 General Revenues:				
Property taxes				-
State aid not restricted to special purpose				8,492
Legislative appropriation				163
Investment earnings				8,655
Total general revenues				(566,500)
Change in net assets				854,708
Net assets - beginning of year				854,708
Net assets - ending				\$ 288,208

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
 UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
 Balance Sheet  
 Governmental Funds  
 June 30, 2011

Statement 3

	General
<b>ASSETS</b>	
Cash on deposit	\$ 288,208
Total assets	\$ 288,208
<b>LIABILITIES</b>	
Accounts payable	\$ -
Total liabilities	-
<b>FUND BALANCE</b>	
Restricted	270,669
Committed	-
Assigned	-
Unassigned	17,539
Total fund balance	288,208
Total liabilities and fund balance	\$ 288,208

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
 UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2011

Statement 4

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental funds	\$	288,208
------------------------------------------	----	---------

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds

The cost of capital assets	-	
Accumulated depreciation	-	
	-----	-

Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year-end consist of:

Compensated absences		-----
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Net assets of governmental activities	\$	<u>288,208</u>
---------------------------------------	----	----------------

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
 UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 For the year ended June 30, 2011

	General Fund
REVENUES	
Taxes	\$ -
Local sources	600
State sources	8,492
Earnings from investments	<u>163</u>
Total revenues	<u>9,255</u>
EXPENDITURES	
Current:	
General government	575,755
Capital outlay	<u>-</u>
Total expenditures	<u>575,755</u>
Net change in fund balances	(566,500)
Fund balance beginning of year	<u>854,708</u>
Fund balance end of year	<u><u>\$ 288,208</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
 UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2011

Statement 6

Net change in fund balances - total governmental funds \$ 566,500

Amounts reported for governmental activities in the  
 Statement of Activities are different because:

Capital outlays to purchase or build capital  
 assets are reported in governmental funds as  
 expenditures. However, for governmental  
 activities those costs are shown in the statement  
 of net assets and allocated over their estimated  
 useful lives as annual depreciation expenses in the  
 statement of activities. This is the amount by which  
 depreciation expenses exceed capital outlays in the period.

Depreciation expense -  
 Capital outlays -

Excess of capital outlay over depreciation expense -

In the Statement of Activities, certain operating  
 expenses are measured by the amount incurred  
 during the year. In the fund financial statements  
 however, expenditures are measured by the amount  
 of financial resources used (essentially the amounts  
 actually paid). The (increase) decrease in the  
 liabilities for the year were:

Compensated absences payable -

Change in net assets of governmental activities \$ 566,500

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
 UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
 General Fund  
 Statement of Revenues and Expenditures -  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Local sources	600	600	600	-
State sources	891,080	891,080	8,492	(882,588)
Earnings from investments	500	500	163	(337)
Total revenues	<u>\$ 892,180</u>	<u>\$ 892,180</u>	<u>\$ 9,255</u>	<u>\$ (882,925)</u>
EXPENDITURES				
Current:				
General government	\$ 886,553	\$ 886,553	\$ 583,616	\$ 302,937
Capital outlay	-	-	-	-
Total expenditures	<u>\$ 886,553</u>	<u>\$ 886,553</u>	<u>\$ 583,616</u>	<u>\$ 302,937</u>
BUDGETED CASH BALANCE	<u>\$ -</u>	<u>\$ -</u>		
EXPENDITURES				
Budgetary basis			\$ 583,616	
(Decrease) in accounts payable			(7,861)	
Modified accrual basis			<u>\$ 575,755</u>	

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
UTE CREEK SOIL & WATER CONSERVANCY DISTRICT  
Notes to Financial Statements  
Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ute Creek Soil & Water Conservancy 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. The Board of Supervisors has chosen to not appoint the two additional supervisors. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial statements of the Ute Creek Soil & Water Conservancy District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Conservancy District had no component units.

Notes to Financial Statements (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the Conservancy District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which is normally 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 Conservancy 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 operation 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*.

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*, as are the proprietary fund financial statements. 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 billed. Grants and similar items are recognized as revenue 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 both 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 30 days of the end of the current fiscal period. Expenditures generally are 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 judgements, are recorded only when payment is due.



Notes to Financial Statements (continued)

Property taxes, franchise taxes, licenses, 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. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government'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 November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

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

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Conservancy District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Conservancy District's general revenues. Program revenues include: 1) charges for services to taxpayers or applicants who purchase, use or directly benefit from the goods or services provided by the given function 2) program-specific operating grants and contributions and 3) program specific capital grants and contributions including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as 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.

## Notes to Financial Statements (continued)

### D. Budgets and Budgetary Accounting

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. There were no changes made to the budget during the fiscal year.

### E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest bearing accounts with local financial institutions and the State Treasurer Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Conservancy District. The pledged securities remain in the name of the financial institution.

### F. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

The cost of inventories are recorded as expenditures when purchased rather than when consumed.

### G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more

Notes to Financial Statements (continued)

than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. This is an increase from the \$1,000 threshold reported in prior years. This is a change in accounting estimate. All previously reported Capital Assets that do not meet the updated amount will be depreciated currently and in future periods until they are fully depreciated. Donated Capital Assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	3

The Conservancy District does not capitalize computer software or software developed for internal use (if applicable) unless it exceeds the \$5,000 threshold.

H. Compensated Absences

It is the policy of the Conservancy District to permit certain employees to accumulate a limited amount of earned but unused vacation, which will be paid to employees upon separation from the Conservancy District's service. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements. There is no liability for unpaid accumulated annual leave for the fiscal year end.

Sick pay does not vest and is recorded as an expenditure when it is paid.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Notes to Financial Statements (continued)

J. Net Assets

The governmental activities and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as follows:

Investment in capital assets, net of related debt - This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

Restricted net assets - This category reflects the portion of net assets that have third party limitation on their use.

Unrestricted net assets - This category reflects net assets of the Village not restricted for any project or other purposes.

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Conservancy District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Conservancy District ordinances).

Enabling legislation authorizes the Conservancy District to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party - such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Conservancy District Council. Those committed amounts cannot be used for any other purpose unless the Conservancy District Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Conservancy District Council, separate from the authorization to raise the underlying

## Notes to Financial Statements (continued)

revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Conservancy District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Conservancy District Council or a Conservancy District official delegated that authority by the Conservancy District Council or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

The Conservancy District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

### L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### M. 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 \$1,000,000 for each wrongful act and \$1,000,000 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 Program Director and Board of Supervisors. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

Notes to Financial Statements (continued)

2. DEPOSITORY COLLATERAL

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Village's Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

The following is the Cash on Deposit at each financial institution.

Community First National Bank	General	Checking	\$ 2,749
Community First National Bank	General	Checking	14,790
New Mexico Finance Authority			<u>270,669</u>
			<u><b>\$ 288,208</b></u>
Total amount on deposit			\$ 288,208
Deposit in transit			-
Outstanding checks			<u>(4,847)</u>
Total per financial statements			<u><b>\$ 283,361</b></u>

The following schedule details the public money held by Community First National Bank the pledged collateral provided for the Conservancy District follows:

	<u>Community First Nat'l Bank</u>
Cash on deposit at June 30	\$ 17,539
Less <u>FDIC</u>	<u>(17,539)</u>
Uninsured funds	-
Funds needing collateralization at 50% (required by State Law)	-
Pledged collateral at June 30	<u>-</u>
Excess of Pledged Collateral	<u><b>\$ -</b></u>

*Custodial Credit Risk - Deposits* - Custodial Credit Risk is the risk that in the event of bank failure, the Conservancy District's deposits may not be returned to it. The Conservancy District does not have a deposit policy for custodial credit risk. As of June 30, \$0 of the Conservancy District's bank balance \$15,967 was exposed to custodial credit risk as follows:

A. Uninsured and Uncollateralized	\$ -
B. Uninsured and collateralized with securities held by the pledging banks trust department, but not in the Conservancy Districts' name	<u>-</u>
Total	<u><b>\$ -</b></u>

Notes to Financial Statements (continued)

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the cooperative for at least one half of the amount on deposit with the institution.

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

The amount held at the New Mexico Finance Authority totaling \$270,669 is collateralized within the NMFA guidelines. This information is not available by individual Agency but the financial statements for the NMFA are available by writing to New Mexico Finance Authority, 207 Shelby Street, Santa Fe, New Mexico 87501.

3. LONG-TERM LIABILITIES

The Conservancy District had no long-term debt at the end of the fiscal year.

4. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Property tax rates for the year are set no later than September 1 each year by the Secretary of Finance and Administration. The rates of tax are then used by County Assessors to develop the property tax schedule by October 1. Taxes are payable in equal semi-annual installments by November 10 and April 10 of the subsequent year. Taxes are collected on behalf of the Conservancy District by the Harding County Treasurer and San Miguel County Treasurer, and are remitted to the Conservancy District in the month following collection. Because the Treasurer for the county in which the Conservancy District is located is statutorily required to collect taxes as an intermediary agency for all forms of government, distribution of taxes are made through the applicable County to the Conservancy District.

5. CAPITAL ASSETS

The amount of property, plant and equipment in the Governmental-Type Activities consists of the following:

	Balance June 30, 2010	Additions	Adjustments	Deletions	Balance June 30, 2011
Equipment	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets being depreciated	-	-	-	-	-
Less accumulated depreciation for:					
Equipment	-	-	-	-	-
Total accumulated depreciation	-	-	-	-	-
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Financial Statements (continued)

6. RETIREMENT PLAN

The Conservancy District does not participate in the State of New Mexico PERA retirement plan or any other retirement plan.

7. RETIREE HEALTH CARE ACT CONTRIBUTIONS

The Conservancy District has elected not to participate in the Retiree Health Care Act of New Mexico's retiree health care program.



# Rice and Associates, C.P.A.

AUDITING  
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(505) 292-8275

CERTIFIED PUBLIC ACCOUNTANTS  
11805 Menaul NE  
Albuquerque, NM 87112

TAX PLANNING  
TAX PREPARATION  
FAX (505) 294-8904

## 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. Hector H. Balderas  
New Mexico State Auditor  
and  
Board Chairman and Board Supervisors  
Ute Creek Soil & Water Conservancy District  
Roy, New Mexico

We have audited the financial statements of the governmental activities and the budgetary comparison of the General Fund of the Ute Creek Soil & Water Conservancy District, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 22, 2011. 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 Ute Creek Soil & Water Conservancy District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ute Creek Soil & Water Conservancy District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conservancy District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the

accompanying Status of Comments and Responses that we consider to be significant deficiencies in internal control over financial reporting, they are Employee Files (10-04), Personnel Policy Updated (10-08) and Segregation of Duties (10-11). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ute Creek Soil & Water Conservancy 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying Status of Findings and Responses as Late Audit Report (10-01), Receipt Books (10-03), Employee Files (10-04), Purchase Orders Required (10-05) and Depreciation Policy (10-07).

We noted certain matters that are required to be reported under Government Auditing Standards paragraph 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying Status of Findings and Responses as Lack of Approved Audit Contract (10-12).

The Ute Creek Soil & Water Conservation District's responses to the findings identified in our audit are described in the accompanying Status of Findings and Responses. We did not audit the Ute Creek Soil & Water Conservation District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Office of the State Auditor, the New Mexico State Legislature, applicable federal grantors and the New Mexico Department of Finance and Administration and is not intended to be used by anyone other than these specified parties.

*Price Associates, LLP*

December 22, 2011

## STATUS OF COMMENTS AND RESPONSES

### Prior Year Audit Findings:

1. Late Audit Report (10-01) - Repeated
2. Bank Account Reconciliations (10-02) - Resolved
3. Receipt Books (10-03) - Repeated
4. Employee Files (10-04) - Repeated
5. Purchase Orders Required (10-05) - Repeated
6. NMFA Transactions (10-06) - Resolved
7. Depreciation Policy (10-07) - Repeated
8. Personnel Policy Updated (10-08) - Repeated
9. Accrued Leave Records (10-09) - Resolved
10. Penalties and Interest (10-10) - Resolved
11. Segregation of Duties (10-11) - Repeated
12. Lack of Approved Audit Contract (10-12) - Repeated

### Current Year Audit Findings:

NONE

Late Audit Report  
(10-01)

CONDITION	The audit report was submitted to the State Auditor after the required deadline of December 1, 2010.
CRITERIA	Conservancy District audits are required to be submitted to the State Auditor by December 1 as required by NMAC 2.2.2.9A(1)(d).
CAUSE	The Conservancy District was unable to obtain a completed contract in time to have the audit completed by the due date.
EFFECT	NMAC 2.2.2.9A(1)(d) was not followed.
RECOMMENDATION	Management needs to ensure that the audit contract is obtained in a timely manner so the audit can be performed before the State Auditors deadline.
RESPONSE	Once the 2011 fiscal year is completed, all future audit reports will be submitted on a timely basis.

Receipt Books

(10-03)

CONDITION	Conservancy District management did not prepare a receipt for all monies received.
CRITERIA	According to Statute 6-6-3 NMSA 1978 the Village is to keep all records in the form prescribed by the Local Government Division.
CAUSE	It is unclear why the Conservancy District employees did not use receipt books to verify the receiving of any/all revenues.
EFFECT	Conservancy District management used source documents to post transactions to the books of record.
RECOMMENDATION	Current Conservancy District management should use receipt books for all monies being received by the Conservancy District.
RESPONSE	Current management is obtaining training on the current software to prepare computer generated receipts that post directly to the general ledger.

Employee Files  
(10-04)

CONDITION	A review of the one employee file revealed that it was missing all required documents 1) an I-9 form, 2) a W-4 form, and 3) a wage pay rate form.
CRITERIA	According to IRS regulations and INS regulations these forms are required to be included in the employees personnel file.
CAUSE	It is unknown why the employees personnel file is missing.
EFFECT	Various payroll regulations have not been complied with.
RECOMMENDATION	Conservancy District management should obtain these forms for all employees immediately and have them filed in their personnel file.
RESPONSE	Current management has a complete and current employee file that includes all relevant required documents.

Purchase Orders Required  
(10-05)

CONDITION	The Conservancy District is not using purchase orders for purchases.
CRITERIA	According to the Department of Finance and Administration regulations purchase orders are to be used as part of the internal control process. They are used to ensure the purchase has been authorized, cash and budget are available and the correct fund and line item have been charged.
CAUSE	Purchase orders have not been used in the Conservancy District for some time.
EFFECT	Department of Finance and Administration regulations have not been followed.
RECOMMENDATION	The Conservancy District should start using purchase orders as soon as possible.
RESPONSE	Current management is looking into creating a purchase order that will include all relevant data that can be integrated with the current business software.

Depreciation Policy  
(10-07)

CONDITION	The Conservancy District has not approved a depreciation policy so depreciation can be charged to capital assets.
CRITERIA	The Conservancy District needs a depreciation policy so capital assets can be depreciated correctly. This is due to the implementation of GASB 34.
CAUSE	The District's Board has not approved a policy for management to follow.
EFFECT	Depreciation may be charged incorrectly because no set policy is in place.
RECOMMENDATION	The District's Board should approve a policy as soon as possible. Management should then implement that policy as soon as possible.
RESPONSE	Management is currently preparing several examples of a policy for the board to approve at the next board meeting.



Personnel Policy Updated  
(10-08)

CONDITION	The Conservancy District has an outdated personnel policy. It has not been updated since .
CRITERIA	Personnel policies should be updated periodically so that they cover any changes in IRS, DFA, PERA, etc. laws and regulations.
CAUSE	Neither the Board or Management has taken the time to ensure this policy is updated to include any relevant changes in laws or regulations.
EFFECT	Personnel laws or regulations may not be followed.
RECOMMENDATION	Management of the Conservancy District is currently trying to update this policy. It is recommended that it be approved by the Board as soon as possible.
RESPONSE	Management has been reviewing and making changes to the personnel policy and will be approved by the board as soon as possible.

Segregation of Duties

(10-11)

CONDITION	The Administrative Assistant performs all payroll functions, billing and receipting functions and all procurement functions.
CRITERIA	Good internal controls require segregation of payroll, procurement and receipting functions.
CAUSE	The Conservancy District is a small agency and does not have the resources to separate the functions. Also the Conservancy District has not established any compensating controls.
EFFECT	The lack of segregation ensures the inability to safeguard the Conservancy District's assets.
RECOMMENDATION	The Supervisory Board should implement compensating controls in each area to ensure its assets are adequately safeguarded.
RESPONSE	Management is aware of its exposure in this area and will develop board policy describing additional duties for particular elected supervisors that provide needed checks and balances.

Lack of Approved Audit Contract (Other Matter)  
(10-12)

CONDITION                    The audit contract for the June 30, 2011 fiscal year-end audit was not approved by the State Auditor prior to submittal of the completed audited financial statements to the Office of the State Auditor on December 22, 2011.

CRITERIA                    Section 12-6-14 NMSA 1978 (Contract Audits) states the "the State Auditor shall notify each agency designated for audit by an independent auditor, and the agency shall enter into a contract with an independent auditor of its choice in accordance with procedures prescribed by rules of the State Auditor...each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the State Auditor. Payment of public funds may not be made to an independent auditor unless a contract is entered into and approved as provided in this section".

CAUSE                    The Auditor was trying to ensure that the audit was completed before the only employee went on maternity leave. However, in the IPA's haste to conclude the audit an approved contract was not obtained.

EFFECT                    The audit of the District was performed without an approved contract and therefore did not meet the requirements of the 2011 State Audit Rule. Payments in the amount of \$2,063.00 made to the District's IPA were not allowed under the 2011 State Audit Rule.

RECOMMENDATION            The District and it's IPA should ensure that the audit contract is approved in accordance with Section 12-6-14 NMSA 1978.

RESPONSE                    The District will ensure that all future audit contracts will be approved before the audit commences.

## FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2010 were prepared by Rice & Associates, CPA, based on managements chart of accounts and trial balances including any adjusting, correcting or closing entries approved by management. These services are allowable under SAS 115.

## EXIT CONFERENCE

An exit conference was held on December 22, 2011. In attendance were Mr. Terry Mitchell, Chairman, Ms. Terica Jeffrey, Administrative Assistant and Ms. Pamela A. Rice, CPA, Contract Auditor