

State of New Mexico
OFFICE OF THE STATE AUDITOR

STATE OF NEW MEXICO

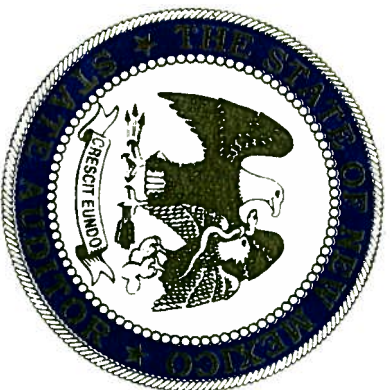
LAVA

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2005

(With Independent Auditor's Report Thereon)



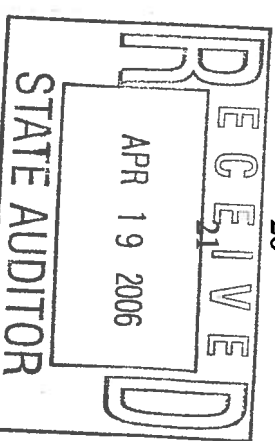
Domingo P. Martinez, CGFM
State Auditor

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STATE AUDITOR
STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT
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 JUNE 30, 2005

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STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Alex Gonzales	Chairperson
Sonny Marquez	Vice-Chairperson
Art Gebeau	Secretary/Treasurer
Miriam Marmon-Goeting (Sue Baca)	Member
Tanya Ott	Member
Ron Charlie	Member
Fred Padilla	Member
<u>District Personnel</u>	<u>Title</u>
Cynthia Spidle	Administrative Assistant



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Mr. Alex Gonzales, Chair
and Members of the Board of Supervisors
Lava Soil and Water Conservation District
117 Silver Avenue
Grants, NM 87200

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Lava Soil and Water Conservation District (District) as of and for the year ended June 30, 2005, 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, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the major governmental 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 March 31, 2006 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

March 31, 2006

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets	
Cash	\$ 88,475
Taxes receivable	1,383
Capital assets, net	-
Total assets	89,858
Liabilities	
Accounts payable	1,535
Accrued payroll taxes	620
Deferred revenue	1,765
Total liabilities	3,920
Net Assets	
Unrestricted	85,938
Total net assets	\$ 85,938

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

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 2

	Governmental Activities
Program Expenses:	
Conservation:	\$ 17,198
Salaries & Taxes	189
Bonding	275
Mill Levy Administration Fees	1,016
Office Supplies	5,582
Meetings/Awards	-
Projects	-
Information and Education	1,565
Dues	1,325
Travel & Per Diem	6,000
Cost Share	8,167
Depreciation	-
Total program expenses	41,317
Program Revenues:	
State grant	7,294
NMDA Grant	2,000
Total program revenues	9,294
Net program (expense) revenue	<u>(32,023)</u>
General Revenues:	
NMDA allotment	9,775
Property taxes	27,838
Interest	1,934
Miscellaneous	1,346
Total general revenues	40,893
Change in net assets	8,870
Net assets at beginning of year	<u>77,068</u>
Net assets at end of year	<u>\$ 85,938</u>

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

STATE OF NEW MEXICO
 LAVA SOIL AND WATER CONSERVATION DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2005

Exhibit 3

	General Fund
Assets	
Cash and cash equivalents	\$ 88,475
Taxes receivable	1,383
	\$ 89,858
Total assets	\$ 89,858
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 1,535
Accrued payroll taxes	620
Deferred revenues	1,765
	3,920
Total liabilities	3,920
Fund balance:	
Unreserved, undesignated	85,938
	85,938
Total fund balance	85,938
Total liabilities and fund balance	\$ 89,858

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

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT
FINANCIAL STATEMENT RECONCILIATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS:

Amounts reported for governmental activities in the Statement of Net Assets are different
are different from the way they are reported in the Balance Sheet - Governmental Funds
as follows:

Fund Balance - Balance Sheet (Exhibit 3) \$ 85,938

Capital assets, net of accumulated depreciation -

Some liabilities are not due and payable in the current period and therefore
are not reported in the governmental funds:

Notes payable -

Net Assets - Statement of Net Assets (Exhibit 1) \$ 85,938

STATE OF NEW MEXICO
 LAVA SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund
Revenues	
Property taxes	\$ 27,838
State allocation	9,775
NMDA Grant	2,000
State grant	7,294
Interest	1,934
Miscellaneous	1,346
Total revenues	50,187
Expenditures	
Conservation:	
Current:	
Salaries & Taxes	17,198
Bonding	189
Mill Levy Administration Fees	275
Office Supplies	1,016
Meetings/Awards	5,582
Projects	-
Information and Education	1,565
Dues	1,325
Travel & Per Diem	6,000
Cost Share	8,167
Total expenditures	41,317
Net change in fund balance	8,870
Fund balance beginning of year	77,068
Fund balance end of year	\$ 85,938

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

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT
FINANCIAL STATEMENT RECONCILIATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RECONCILIATION OF THE STATEMENT OF ACTIVITIES TO THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES:

Net change in fund balance - Governmental Funds (Exhibit 4)	\$ 8,870
---	----------

Amounts reported in the Statement of Activities are different because:

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

-

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

Capital outlay	-
Depreciation expense	-
	<hr/>

Change in net assets - Statement of Activities (Exhibit 2)	<u><u>\$ 8,870</u></u>
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STATE OF NEW MEXICO
LAVA 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, 2005

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
Property taxes	\$ 25,000	\$ 25,000	\$ 26,553	\$ 1,553
NMDA allocation	10,000	10,000	9,775	(225)
Grants	7,000	7,000	9,294	2,294
Contributions	2,000	2,000	1,346	(654)
Interest	200	200	1,934	1,734
Miscellaneous	-	-	405	405
Total revenues	<u>\$ 44,200</u>	<u>\$ 44,200</u>	<u>\$ 49,307</u>	<u>\$ 5,107</u>
Expenditures				
Conservation:				
Current:				
Salaries & Taxes	\$ 16,600	\$ 16,600	\$ 17,500	\$ (900)
Bonding	200	200	189	11
Mill Levy Administration Fees	250	250	259	(9)
Office Supplies	250	250	774	(524)
Meetings/Awards	2,000	2,000	5,582	(3,582)
Projects	1,000	1,000	1,147	(147)
Information and Education	3,000	3,000	543	2,457
Dues	1,500	1,500	1,325	175
Travel & Per Diem	8,000	8,000	6,516	1,484
Cost Share	11,400	11,400	8,167	3,233
Total expenditures	<u>\$ 44,200</u>	<u>\$ 44,200</u>	<u>\$ 42,002</u>	<u>\$ 2,198</u>

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

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Lava 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, two 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
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 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.

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally designated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

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

D. Assets, Liabilities, and Net Assets or Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be demand deposits and short term investments (certificates of deposit) with original maturities of twelve 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. Taxes Receivables

The District receives mill-levy property tax revenue from the county of Cibola. The taxes are collected by the respective county treasurer and are paid to the District monthly, therefore, not allowance for doubtful accounts is recorded.

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

3. Capital Assets

Capital assets, which include property, equipment (including software), and other items as applicable 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 \$1,000 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.

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

Computer equipment 5 years

4. Accounts Payable

The District's accounts payable represent routine monthly bills for services rendered and products purchased which are paid in the following month.

5. Deferred Revenue

The District received \$9,059 from the New Mexico Department of Agriculture for the Cubero Land Grant Rock and Brush Dam project. As of June 30, 2005, the project expended \$7,294 on the project. Deferred revenue at June 30, 2005 is \$1,765.

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
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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 Budget to GAAP

Prior year receivables	(322)
Current year receivables	1,383
Reclass refund of overpayment	<u>(181)</u>
GAAP revenues (Exhibit 4)	<u><u>\$ 50,187</u></u>
Non-GAAP expenditures (Exhibit 5)	\$ 42,002
Prior year payable	(2,036)
Prior year payroll accrual	(623)
Current year payable	1,535
Current year payroll accrual	620
Reclass refund of overpayment	<u>(181)</u>
GAAP expenditures (Exhibit 4)	<u><u>\$ 41,317</u></u>

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2005, the District had a carrying amount of deposits of \$88,475. Bank balances for deposits were \$89,525. The \$1,050 difference represents outstanding checks. The total bank balance consisted of the following:

<u>Wells Fargo Bank</u>	
Demand deposits	\$ 34,731
Less: FDIC coverage	(34,731)
Amount uninsured	<u>\$ -0-</u>
<u>Wells Fargo Bank</u>	
Certificate of Deposit	\$ 15,000
Less: FDIC coverage	(15,000)
Amount uninsured	<u>\$ -0-</u>
<u>Wells Fargo Bank</u>	
Certificate of Deposit	\$ 5,000
Less: FDIC coverage	(5,000)
Amount uninsured	<u>\$ -0-</u>
<u>Grants State Bank</u>	
Certificate of Deposit	\$ 9,220
Less: FDIC coverage	(9,220)
Amount uninsured	<u>\$ -0-</u>
<u>Grants State Bank</u>	
Certificate of Deposit	\$ 11,883
Less: FDIC coverage	(11,883)
Amount uninsured	<u>\$ -0-</u>

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

<u>Grants State Bank</u>	
Certificate of Deposit	\$ 13,590
Less: FDIC coverage	<u>(13,590)</u>
Amount uninsured	<u>\$ -0</u>

Custodial credit risk is the risk that in the event of bank failure, uninsured cash balances could be lost. None of the District's cash balances were subject to custodial credit at year-end since they were all covered by FDIC insurance.

B. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Description	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Office Equipment	\$ 1,635	\$ -	\$ -	\$ 1,635
Totals	<u>\$ 1,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,635</u>
Less accumulated depreciation for:				
Office Equipment	\$ 1,635	\$ -	\$ -	\$ 1,635
Total accumulated depreciation	<u>\$ 1,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,635</u>
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

IV. Other Information

A. Employee Retirement Benefits

The District does not offer a pension plan, deferred compensation plan, or post employment benefits to its Administrative Assistant.

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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 \$1,000,000 for each wrongful act and \$1,000,000 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 \$25,000 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. 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.

In 2001, the Prop Canyon structure, an earthen dam under the District's jurisdiction, was determined to have transverse and longitudinal cracks that run all the way through the dam. If the dam were to fill to overflow capacity and breach, which has never happened since it was constructed in 1960, several families on farm lands below the dam could be inundated and threatened by flood water. District options are:

- Do Nothing. Cost of \$0.
- Remedial Repair. Estimated cost of \$1.5 million.
- Re-Build. Estimated cost \$3.0 million.

District net assets total \$85,938. Additional funding may be available from state and federal sources. The District is meeting with the State Engineer and other state officials and property owners, but has not made a decision as to what action will be taken, if any. The District believes all affected property owners were aware of the risks of being in the flood zone when they purchased their properties. Due to uncertainty as to the likelihood of a breach or determination of liability, no allowances for possible contingency have been recorded in the financial statements.



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

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. Alex Gonzales, Chair
and Members of the Board of Supervisors
Lava Soil and Water Conservation District
117 Silver Avenue
Grants, New Mexico 87020

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Lava Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated March 31, 2006. 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. Reportable conditions are described in the accompanying schedule of findings and recommendations as item 05-1.

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 considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as item 05-1.

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, 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

March 31, 2006

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

STATUS OF PRIOR YEAR AUDIT FINDINGS

04-1 Actual Expenditures Exceeded the Approved Budget-Resolved

CURRENT YEAR AUDIT FINDINGS

05-1 Minutes Not Signed

Finding 05-01 Minutes Not Signed

Condition

Auditors reviewed the District's minutes of the board meetings for the period July 1, 2004 through February 8, 2006. Although approved by a voice vote of the board, minutes for nine out of 20 meetings had not been signed. In addition, a draft of the minutes for the March 1, 2006 board meeting had not been prepared as of March 31, 2006.

Criteria

Section 10-15-1 G NMSA 1978 requires the board to keep written minutes of all its meetings. Draft minutes must be prepared within 10 working days after the meeting and be approved, amended or disapproved at the next meeting where a quorum is present. Minutes are not official until approved by the board and attested to (signed) by an authorized board member.

Effect

The District is not in compliance with state law.

Cause

The board did not take due care to ensure that all minutes were signed.

Recommendation

Have the board's chairman and secretary sign all approved board minutes. Prepare March 1, 2006 minutes and all minutes of all future meetings within 10 working days.

STATE OF NEW MEXICO
LAVA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

Management's Response

As noted, some of the minutes were not signed making them official and the March 1, 2006 minutes had not been prepared. In the future, we will be more cautious as to having these signed at the board meetings and preparing a draft of minutes within 10 working days.

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 March 31, 2006, an exit conference was held at the District Office with Mr. Alex Gonzales, Chairman and Ms. Cynthia Spidle, Administrative Assistant of the Lava Soil and Water Conservation District. Representing the Office of the State Auditor was LaVonne Cornett, Audit Manager.