

**STATE OF NEW MEXICO**

**LAVA**

**SOIL AND WATER CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**Fiscal Year Ended June 30, 2006**

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

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2006

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STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT  
OFFICIAL ROSTER  
JUNE 30, 2006

| <u>Board of Supervisors</u>       | <u>Position</u>     |
|-----------------------------------|---------------------|
| Alex Gonzales                     | Chairperson         |
| Sonny Marquez                     | Vice-Chairperson    |
| Art Gebeau                        | Secretary/Treasurer |
| Miriam Marnon-Goetting (Sue Baca) | Member              |
| Tanya Ott                         | Member              |
| Ron Charlie                       | Member              |
| Fred Padilla                      | Member              |

| <u>District Personnel</u> | <u>Title</u>             |
|---------------------------|--------------------------|
| Cynthia Spidle            | Administrative Assistant |



# **OFFICE OF THE STATE AUDITOR**

**Hector H. Balderas**

## INDEPENDENT AUDITOR'S REPORT

Mr. Alex Gonzales, Chairperson  
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, 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 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 16, 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

March 16, 2007

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

|                                   | Governmental<br>Activities |
|-----------------------------------|----------------------------|
| <b>Assets</b>                     |                            |
| Cash                              | \$ 100,249                 |
| Property taxes receivable         | 119                        |
| Capital assets, net               | -                          |
| Total assets                      | 100,368                    |
| <b>Liabilities</b>                |                            |
| Accounts payable                  | 4,027                      |
| Accrued payroll taxes             | 1,770                      |
| Deferred revenue                  | 1,765                      |
| Total liabilities                 | 7,562                      |
| <b>Net Assets</b>                 |                            |
| Investment in capital assets, net | -                          |
| Restricted                        | 1,765                      |
| Unrestricted                      | 91,041                     |
| Total net assets                  | \$ 92,806                  |

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, 2006

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>Program Expenses:</b>               |                            |
| Conservation:                          | \$ 17,754                  |
| Personnel                              | 189                        |
| Bonding                                | 268                        |
| Mill Levy Administration Fees          | 230                        |
| Office Supplies                        | 4,229                      |
| Meetings/Awards                        | 725                        |
| Projects                               | 1,898                      |
| Information and Education              | 550                        |
| Dues                                   | 169                        |
| Election                               | 10,048                     |
| Travel & Per Diem                      | 3,517                      |
| Cost Share                             | 392                        |
| Miscellaneous                          | 392                        |
| <b>Total program expenses</b>          | <b>39,969</b>              |
| <b>Program Revenues:</b>               |                            |
| BLM Noxious Weeds - Operating Grant    | 4,000                      |
| NMDA Operating Grant                   | 2,000                      |
| <b>Total program revenues</b>          | <b>6,000</b>               |
| <b>Net program (expense) revenue</b>   | <b>(33,969)</b>            |
| <b>General Revenues:</b>               |                            |
| NMDA allotment                         | 9,944                      |
| Property taxes                         | 27,879                     |
| Interest                               | 1,467                      |
| Miscellaneous                          | 1,547                      |
| <b>Total general revenues</b>          | <b>40,837</b>              |
| <b>Change in net assets</b>            | <b>6,868</b>               |
| <b>Net assets at beginning of year</b> | <b>85,938</b>              |
| <b>Net assets at end of year</b>       | <b>\$ 92,806</b>           |

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, 2006

|                                     | General<br>Fund |
|-------------------------------------|-----------------|
| <b>Assets</b>                       |                 |
| Cash and cash equivalents           | \$ 100,249      |
| Property taxes receivable           | 119             |
| Total assets and other debts        | \$ 100,368      |
| <b>Liabilities and fund balance</b> |                 |
| <b>Liabilities:</b>                 |                 |
| Accounts payable                    | \$ 4,027        |
| Accrued payroll taxes               | 1,770           |
| Deferred revenue                    | 1,765           |
| Total liabilities                   | 7,562           |
| <b>Fund balance:</b>                |                 |
| Reserved for re-seeding project     | 1,765           |
| Unreserved, undesignated            | 91,041          |
| Total fund balance                  | 92,806          |
| Total liabilities and fund balance  | \$ 100,368      |

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



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

|                                     | <u>General Fund</u>     |
|-------------------------------------|-------------------------|
| <b>Revenues</b>                     |                         |
| Property taxes                      | \$ 27,879               |
| State allocation                    | 9,944                   |
| NMDA Grant                          | 2,000                   |
| BLM Noxious Weeds - Operating Grant | 4,000                   |
| Interest                            | 1,467                   |
| Miscellaneous                       | 1,547                   |
| <b>Total revenues</b>               | <u>46,837</u>           |
| <b>Expenditures</b>                 |                         |
| Current:                            |                         |
| Salaries & Taxes                    | 17,754                  |
| Bonding                             | 189                     |
| Mill Levy Administration Fees       | 268                     |
| Office Supplies                     | 230                     |
| Meetings/Awards                     | 4,229                   |
| Projects                            | 725                     |
| Information and Education           | 1,898                   |
| Dues                                | 550                     |
| Election                            | 169                     |
| Travel & Per Diem                   | 10,048                  |
| Cost Share                          | 3,517                   |
| Miscellaneous                       | 392                     |
| <b>Total Expenditures</b>           | <u>39,969</u>           |
| Net change in fund balance          | 6,868                   |
| Fund balance beginning of year      | <u>85,938</u>           |
| Fund balance end of year            | <u><u>\$ 92,806</u></u> |

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 REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

|                               | General Fund       |                  |                  | Variance                   |
|-------------------------------|--------------------|------------------|------------------|----------------------------|
|                               | Original<br>Budget | Final<br>Budget  | Actual           | Favorable<br>(Unfavorable) |
| <b>Revenues</b>               |                    |                  |                  |                            |
| Property taxes                | \$ 25,000          | \$ 25,000        | \$ 29,143        | \$ 4,143                   |
| State allocation              | 10,000             | 10,000           | 9,944            | (56)                       |
| Grants                        | 2,000              | 2,000            | 2,000            | -                          |
| Contributions                 | 2,000              | 2,000            | 1,547            | (453)                      |
| Interest                      | 200                | 200              | 1,467            | 1,267                      |
| BLM Noxious Weed Program      | 5,000              | 5,000            | 4,000            | (1,000)                    |
| Total revenues                | <u>\$ 44,200</u>   | <u>44,200</u>    | <u>\$ 48,101</u> | <u>\$ 3,901</u>            |
| <b>Expenditures</b>           |                    |                  |                  |                            |
| Conservation:                 |                    |                  |                  |                            |
| Salaries & Taxes              | \$ 16,600          | \$ 16,600        | \$ 17,461        | \$ (861)                   |
| Bonding                       | 200                | 200              | 189              | 11                         |
| Mill Levy Administration Fees | 250                | 250              | 288              | (38)                       |
| Office Supplies               | 250                | 250              | 411              | (161)                      |
| Meetings/Awards               | 2,000              | 2,000            | 4,229            | (2,229)                    |
| Projects                      | 3,000              | 3,000            | 725              | 2,275                      |
| Information and Education     | 1,000              | 1,000            | 1,898            | (898)                      |
| Election                      | -                  | -                | 169              | (169)                      |
| Dues                          | 1,500              | 1,500            | 550              | 950                        |
| Travel & Per Diem             | 8,000              | 8,000            | 7,922            | 78                         |
| Cost Share                    | 11,400             | 11,400           | 2,095            | 9,305                      |
| Miscellaneous                 | -                  | -                | 392              | (392)                      |
| Total expenditures            | <u>\$ 44,200</u>   | <u>\$ 44,200</u> | <u>\$ 36,329</u> | <u>\$ 7,871</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, 2006

**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, 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).

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and Statement of Activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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. The District reports the following major governmental funds:

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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, 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 (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, no allowance for doubtful accounts is recorded.

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

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 \$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.

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

Office equipment      5 years

4. Accounts Payable

The District's accounts payable represent routine monthly bills for services rendered and products purchased which are due at 6/30/06 but not paid for until after fiscal year-end.

5. 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 nets assets, and restricted net assets- wherein the constrains 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 restricted net assets of \$1,765 at fiscal year end. Also, the District does have \$1,765 of its fund balance reserved for a re-seeding project.

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

6. 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, 2006, the project expended \$7,294 on the project, leaving \$1,765 of deferred revenue at June 30, 2006. The amount remaining of \$1,765 is reserved for a re-seeding project which has not taken place due to drought conditions and so the deferred revenue remains.

**II. Stewardship, Compliance and Accountability**

**A. Budgetary Information**

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

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

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

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

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

|                                   |    | General<br>Fund      |
|-----------------------------------|----|----------------------|
| Non-GAAP revenues (Exhibit 5)     | \$ | 48,101               |
| Prior year receivables            |    | (1,383)              |
| Current year receivables          |    | 119                  |
| GAAP revenues (Exhibit 4)         | \$ | <u>46,837</u>        |
| Non-GAAP expenditures (Exhibit 5) | \$ | 36,328               |
| Prior year payable                |    | (1,535)              |
| Prior year payroll accrual        |    | (620)                |
| Current year payable              |    | 4,027                |
| Current year payroll accrual      |    | 1,769                |
| GAAP expenditures (Exhibit 4)     | \$ | <u><u>39,969</u></u> |

**III. Detailed Notes on all Funds**

**A. Cash and Cash Equivalents**

As of June 30, 2006, the District had a carrying amount of deposits of \$100,249. Bank balances for deposits were \$100,674. The \$425 difference represents outstanding checks. The total bank balance consisted of the following:

|   |    |                   |
|---|----|-------------------|
| <u>Wells Fargo Bank - Gallup, New Mexico</u>  |    |                   |
| Demand deposits                               | \$ | 44,948            |
| Less: FDIC coverage                           |    | (44,948)          |
| Uninsured balance                             | \$ | <u><u>-0-</u></u> |
| <u>Wells Fargo Bank - Gallup, New Mexico</u>  |    |                   |
| Certificate of Deposit                        | \$ | 20,000            |
| Less: FDIC coverage                           |    | (20,000)          |
| Uninsured balance                             | \$ | <u><u>-0-</u></u> |
| <u>Grants State Bank – Grants, New Mexico</u> |    |                   |
| Certificate of Deposit                        | \$ | 35,726            |
| Less: FDIC coverage                           |    | (35,726)          |
| Uninsured balance                             | \$ | <u><u>-0-</u></u> |



STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that in the event of 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, \$-0- of the government’s bank balance of \$100,674 was exposed to custodial credit risk. All of the District’s deposits were covered by FDIC insurance.

**B. Capital Assets**

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

| Description                                 | Balance<br>6/30/2005 | Additions   | Deletions       | Balance<br>6/30/2006 |
|---|----------------------|-------------|-----------------|----------------------|
| <u>Governmental activities:</u>             |                      |             |                 |                      |
| Office Equipment                            | \$ 1,635             | \$ -        | \$ 1,635        | \$ -                 |
| Total at historical cost                    | <u>\$ 1,635</u>      | <u>\$ -</u> | <u>\$ 1,635</u> | <u>\$ -</u>          |
| Less accumulated depreciation for:          |                      |             |                 |                      |
| Office Equipment                            | \$ (1,635)           | \$ -        | \$ 1,635        | \$ -                 |
| Total accumulated depreciation              | <u>\$ (1,635)</u>    | <u>\$ -</u> | <u>\$ 1,635</u> | <u>\$ -</u>          |
| Governmental activities capital assets, net | <u>\$ -</u>          | <u>\$ -</u> | <u>\$ -</u>     | <u>\$ -</u>          |

**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.

**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 \$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.

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**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 farmlands 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 \$92,806. 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.

Lava Soil and Water Conservation District was made aware of the fact that a potential tort claim might be filed against the District concerning flooding on property located on Ralph Card Road. Although the outcome of this lawsuit is not presently determinable, the resolution of these matters should not have a material adverse effect on the financial condition of the District.



# **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. Alex Gonzales, Chairperson  
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, 2006 and have issued our report dated March 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 06-1 and 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

March 16, 2007

STATE OF NEW MEXICO  
LAVA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

05-1. Minutes Not Signed – *Resolved*.

CURRENT YEAR AUDIT FINDINGS

06-1. Non-compliance with the Per Diem and Mileage Regulations

Condition

During the financial audit we noted the following:

- The District overpaid a travel reimbursement for out-of-state travel due to the lack of a receipt for a meal reimbursement in the amount of \$21.
- The approval to be reimbursed on actual expenses was not documented anywhere.
- Three travel reimbursement forms were not approved for payment by the Board.

Criteria

The Regulations Governing the Per Diem and Mileage Act (Section 2.42.2 of the New Mexico Administration Code) require per diem and mileage forms and vouchers to be completed before the public employee or official can be reimbursed for per diem and mileage expenses.

Effect

The person(s) who authorized or received the overpayment is subject to repay twice the amount over paid per Section 10-10-8 NMSA 1978.

Cause

The District failed to comply with policies and procedures for payment of travel reimbursements due to a lack of authorization for payment of goods and services and due to a lack of a receipt for a meal reimbursement.

Recommendation

The District should obtain a copy and comply with the Regulations Governing the Per Diem and Mileage Act. The Board of Supervisors should not approve a payment voucher for per diem and mileage expenses unless there is a completed travel reimbursement on

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SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2006

file that contains all documentation required by the Per Diem and Mileage Regulations. The Board of Supervisors should document authorization of all reimbursements for actual expenses and all prior approvals. Also, the District needs to file and maintain all expenditure documentation for a minimum of three years.

Management's Response

Board members will be made aware of the State's Per Diem and Mileage Act at the April 2007 Board of Supervisors' meeting. This should avoid any mix ups when reimbursements are presented for payment.

06-2. Missing Asset Disposition Notification to State Auditor

Condition

The Gateway Computer acquired by the District in 1999 was donated to the Flood Control Board (FCB) and the District failed to notify the Office of the State Auditor of the disposition of property without "sanitizing" all licensed software and any electronic media pertaining to the agency.

Criteria

Per Sections 13-6-1 and 13-6-2 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of any items of tangible personal property give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the State Auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of the authority approving the action. State Audit Rule 2.2.2.10 W. (2) and (3) gives instructions regarding the disposition of a computer.

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.

STATE OF NEW MEXICO  
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SCHEDULE OF FINDINGS AND RESPONSES  
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Cause

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

Recommendation

We recommend the District notify the Office of the State Auditor thirty days in advance of any dispositions of capital assets before disposal. In accordance with Section 2.2.2.10 W. NMAC, the District will certify in writing the proper erasure of the hard drive and submit the certification along with the notification of the proposed disposition of property to the State Auditor.

Management's Response

In the future, when Lava Soil and Water Conservation District has property to dispose of that meets the capital asset requirements, it will notify the Office of the State Auditor.

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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 March 16, 2007, an exit conference was held at the District Office with Mr. Sonny Marquez, Vice-Chairman and Ms. Cynthia Spidle, Administrative Assistant of the Lava Soil and Water Conservation District. Representing the Office of the State Auditor was Joyce Sandoval, Audit Supervisor and Stephanie Manzanares, Senior Auditor.