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**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

STATE OF NEW MEXICO

LEA

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**

*8/2/05*

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2005

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STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT  
OFFICIAL ROSTER  
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Brent Van Dyke	Chairman
John Norris	Vice-Chairman
Becky Jo Doom	Secretary/Treasurer
Shelby Gilmore	Supervisor
J. W. Spears	Supervisor
Alan Eades	Supervisor
Jace Reid	Supervisor
<u>District Personnel</u>	<u>Title</u>
Melba Hamby	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. Brent Van Dyke, Chairman  
and Members of the Board of Supervisors  
Lea Soil and Water Conservation District  
401 Tatum Highway  
Lovington, New Mexico 88260

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Lea 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 general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis required by *GASB Statement No. 34* that the Governmental Accounting Standards Board has

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<http://www.saozm.org>

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 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

April 27, 2006

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

Exhibit 1

	Governmental Activities
<b>Assets</b>	
Cash	\$ 7,678
Investments	58,019
Restricted investments	29,307
Capital assets, net	347,471
Total assets	442,475
<b>Liabilities</b>	
Accrued compensated absences	19
Note payable:	
Portion due within one year	17,185
Portion due in more than one year	239,838
Total liabilities	257,042
<b>Net Assets</b>	
Invested in capital assets, net of related debt	90,448
Restricted for debt service	29,307
Unrestricted	65,678
Total net assets	\$ 185,433

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

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

Exhibit 2

	Governmental Activities
<b>Program Expenses:</b>	
Conservation:	
Personal services	\$ 11,279
Travel, per diem and mileage	3,297
Equipment maintenance	592
Brush control	7,916
Advertisement	575
Office supplies and printing	830
Utilities	6,704
Education, conservation and stewardship	672
Legislative	382
Dues	1,788
Fidelity bond	132
Building loan-interest	12,564
Building insurance	1,179
Building maintenance	1,904
Janitor and janitorial supplies	6,564
Depreciation	10,877
Total expenses	67,255
<b>Program revenues:</b>	
Operating grants:	
Lea County grant	12,000
State Highway	2,950
USDA farm bill	275
Charges for services:	
Brush control	2,986
Equipment rentals	1,224
Building rental income	43,127
NRCS storage building rental	300
Total program revenues	62,862
Net program (expense) revenue	(4,393)
<b>General Revenues:</b>	
NMDA allotment	9,775
Investment income:	
Interest	2,896
Increase in fair value of investments	2,497
Gain on sale of equipment	223
Miscellaneous	100
Total general revenues	15,491
Net change in net assets	11,098
Net assets at beginning of year, as previously reported	174,197
Restatement	138
Net assets at beginning of year, as restated	174,335
Net assets at end of year	\$ 185,433

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

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

Exhibit 3

	General Fund
<b>Assets</b>	
Cash	\$ 7,678
Investments	58,019
Restricted investments	29,307
<b>Total assets</b>	<b>\$ 95,004</b>
<b>Liabilities and fund balance</b>	
<b>Liabilities:</b>	
Accounts payable	\$ -
<b>Total liabilities</b>	-
<b>Fund balance:</b>	
Reserved for long-term debt	29,307
Unreserved, designated for subsequent year's expenditures	8,116
Unreserved, undesignated	57,581
<b>Total fund balance</b>	<b>95,004</b>
<b>Total liabilities and fund balance</b>	<b>\$ 95,004</b>

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



STATE OF NEW MEXICO  
 LEA SOIL AND WATER CONSERVATION DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Fund Balance - Balance Sheet (Exhibit 3)	\$ 95,004
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	347,471
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(19)
Note payable	<u>(257,023)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 185,433</u></u>

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

	General Fund
<b>Revenues</b>	
State allocation	\$ 9,775
Lea County grant	12,000
Building rental income	43,127
Equipment rentals	1,224
Proceeds from sale of equipment	2,185
Investment income:	
Interest	2,896
Increase in fair value of investments	2,497
NRCS storage building rental	300
Brush control - chemical sales	2,985
USDA Grant: Farm bill	275
State Highway Grant - highway frontage	2,950
Miscellaneous	100
<b>Total Revenues</b>	<b>80,314</b>
<b>Expenditures</b>	
Conservation:	
Current:	
Personal services	11,259
Postage	162
Travel: Per diem and mileage	3,297
Equipment maintenance	592
Brush control	7,916
Advertisement	575
Office supplies and printing	668
Utilities	6,704
Education, conservation and stewardship	672
Legislative	382
Dues	1,788
Fidelity bond	132
Building loan-principal	16,598
Building loan -interest	12,564
Building insurance	1,179
Building maintenance	1,904
Janitor and janitorial supplies	6,564
<b>Total expenditures</b>	<b>72,956</b>
<b>Net change in fund balance</b>	<b>7,358</b>
<b>Fund balance beginning of year, as previously reported</b>	<b>87,508</b>
<b>Restatement</b>	<b>138</b>
<b>Fund balance beginning of year, as restated</b>	<b>87,646</b>
<b>Fund balance end of year</b>	<b>\$ 95,004</b>

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

STATE OF NEW MEXICO  
 LEA SOIL AND WATER CONSERVATION DISTRICT  
 RECONCILIATION OF THE STATEMENT OF ACTIVITIES TO THE STATEMENT OF  
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balance - Governmental Funds (Exhibit 4)	\$ 7,358
Amounts reported in the Statement of Activities are different because:	
Increase in compensated absences	(19)
Accumulated depreciation on equipment sold	(1,962)
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:	
Depreciation expense	(10,877)
Repayment of principal on long-term debt (note payable) is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount repaid in the current year:	16,598
Net change in net assets - Statement of Activities (Exhibit 2)	\$ 11,098

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 5

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Revenues</b>				
State allocation	\$ 9,800	\$ 9,800	\$ 9,775	\$ (25)
Lea County grant	12,000	12,000	12,000	-
Building rental income	43,127	43,127	43,127	-
Equipment rentals	6,100	6,100	1,224	(4,876)
Sale of equipment	-	-	2,185	2,185
Investment income	75	75	5,393	5,318
NRCS storage building rental	300	300	300	-
Brush control	-	-	2,985	2,985
Weather modification/Rain Enhancement	175,000	175,000	-	(175,000)
Weather reclamation	14,537	14,537	-	(14,537)
USDA Grant: Farm bill	-	-	275	275
State Highway Grant - highway frontage	-	-	2,950	2,950
Miscellaneous	500	500	100	(400)
<b>Total revenues</b>	<u>\$ 261,439</u>	<u>\$ 261,439</u>	<u>\$ 80,314</u>	<u>\$ (181,125)</u>
<b>Expenditures</b>				
Current:				
Personal services	\$ 17,500	\$ 17,500	\$ 12,068	\$ 5,432
Employee taxes	-	-	-	-
Postage	300	300	162	138
Travel: Per diem and Mileage	6,800	6,800	4,850	1,950
Equipment maintenance	7,000	7,000	592	6,408
Brush control	-	-	7,916	(7,916)
Fire extinguishers validation	25	25	-	25
Advertisement	1,200	1,200	575	625
Office supplies and printing	700	700	668	32
Telephone	420	420	-	420
Utilities	8,000	8,000	6,704	1,296
Education, conservation and stewardship	2,570	2,570	672	1,898
Legislative	-	-	382	(382)
Dues	1,350	1,350	1,788	(438)
Fidelity bond	200	200	132	68
Windbreak trees	45	45	-	45
Weather reclamation/ modification project	175,000	175,000	-	175,000
Building loan-principal	29,160	29,160	16,598	12,562
Building loan-interest	-	-	12,564	(12,564)
Landscape	1,200	1,200	-	1,200
Building insurance	1,455	1,455	1,179	276
Building maintenance	1,500	1,500	1,904	(404)
Janitor and janitorial supplies	6,500	6,500	6,564	(64)
Safe deposit box	14	14	-	14
Miscellaneous	500	500	-	500
<b>Total expenditures</b>	<u>\$ 261,439</u>	<u>\$ 261,439</u>	<u>\$ 75,318</u>	<u>\$ 186,121</u>

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

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Lea Soil and Water Conservation District (District) is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-49 NMSA 1978). The District is a governmental subdivision of the state, a public body corporate and politic, organized for control and prevention of flood, sediment, and soil erosion damage, and to further the conservation, development and beneficial use of water and soil resources. The governing body of the District consists of five elected supervisors, four of whom must be landowners in the District. Two additional supervisors may be appointed to the District board. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

A primary government is any state government or general-purpose local government and the organizations comprising its legal entity. Although the District is organized as a subdivision of the State and administratively attached to the New Mexico State University, Department of Agriculture, the statutory powers of the District establish it as a primary government with a separate corporate and legal identity. The District has no component units, financially dependent affiliates, nor is it legally liable for actions of other agencies.

The financial reporting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District is required to implement GASB Statement No. 40, Deposit and Investment Risk Disclosures in fiscal year 2005. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

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

The government-wide financial statements (i.e., the statement of net assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities,

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

which rely to a significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

Grants and interest associated with the current fiscal period is considered to be susceptible to accrual and has 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  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

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

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

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

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

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

**1. Cash and Investments**

The District's cash and cash equivalents are considered to be demand deposits. The investments are long-term investments (money market account and U.S. Government Agency securities and mortgage backed securities).

State statutes authorize the District to invest in obligations of the U.S. Treasury, repurchase agreements, and certificates of deposit. Investments for the government, if applicable, are reported at fair value.

**2. Restricted Assets**

The New Mexico Finance Authority (NMFA) Loan Agreement Reserve Account is set aside as restricted assets on the balance sheet because they are maintained in a separate bank account and their use is limited by NMFA's Governmental Unit Resolution No. 02-03.

**3. Capital Assets**

Capital assets, which include property and equipment 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

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

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

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

Buildings	39 years
Storage Building	10 years
Farm equipment	7 years
Computer equipment	5 years

4. Net Assets and Fund Balance

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of three components – invested in capital assets, net of related debt which is the cost of capital assets, net of accumulated depreciation and related debt, restricted for debt service and unrestricted net assets. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation and/or are legally restricted by outside parties for use for a specific purpose. A portion of the fund balance has been reserved for debt service. The debt service resources have been classified as restricted assets on the Statement of Net Assets because their use is restricted by the lender. A portion of the unreserved fund balance has been designated for balancing the subsequent year's budget.

**II. Stewardship, Compliance and Accountability**

**A. Budgetary Information**

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



STATE OF NEW MEXICO  
LEA 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 Basis Financial Statements**

	General Fund
Non-GAAP expenditures (Exhibit 5)	\$ 75,318
Prior year payable	(1,553)
Prior year payroll accrual	(809)
GAAP expenditures (Exhibit 4)	\$ 72,956

**III. Detailed Notes on all Funds**

**A. Cash**

As of June 30, 2005, the District had a carrying amount of deposits of \$7,678. The bank balance for deposits is \$9,096. The difference between the carrying amount and the bank balance of deposits is due to deposits in transit of \$3,594 and outstanding checks of \$5,012. The bank balance consists of:

<u>Western Commerce Bank</u>	
Demand deposits	\$ 9,096
Less: FDIC coverage	(9,096)
Amount uninsured	\$ -0-

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

*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, 2005, \$-0- of the government’s bank balance of \$9,096 was exposed to custodial credit risk. All of the District’s deposits were covered by FDIC insurance.

**B. Investments**

The District has implemented GASB Statement No. 31 “Accounting and Financial Reporting for Certain Investments.” This statement requires that certain investments as defined in GASB Statement No. 31 to be valued at fair value. Fair value is based on quoted market prices as of the valuation date. The change in fair value is recognized as a component of investment income in the current year.

As of June 30, 2005, the District had a carrying amount of unrestricted investments of \$58,019.

<u>Edward Jones:</u>	
Money Market Account	\$ 10,651
Mortgage-backed securities and	
U.S. Government agency securities	47,230

<u>Bank of Albuquerque:</u>	
U.S. Treasury securities	138
Total	<u>\$ 58,019</u>

The restricted investment consists of:

<u>Bank of Albuquerque:</u>	
U.S. Treasury securities	<u>\$ 29,307</u>

Calculation of the net increase in the fair value of investments during the year:

Fair value at June 30, 2005	\$ 58,019
Add: Proceeds of investments sold	2,270
Less: Cost of investments purchased	(4,966)
Less: Prior period adjustment	(138)
Less: Fair value at June 30, 2004	<u>(52,688)</u>
Increase in fair value of investments	<u>\$ 2,497</u>

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2005, the \$58,019 in unrestricted investments and \$29,307 in restricted investments are held by the investments' counterparties, not in the name of the District. The District has no policy with respect to how much of its investments may be held by a given counterparty.

*Interest Rate Risk.* The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits the District's investments to bonds or negotiable securities of the United States, the State of New Mexico, or a county, municipality or school districts that meet certain criteria and securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States, or are backed by the full faith and credit of the United States government. The district has no investment policy that would further limit its investment choices. As of June 30, 2005, the Standard & Poor's and Moody's Investors Service ratings of the District's investments have not been determined.

*Concentration of Credit Risk.* The District places no limit on the amount the District may invest in any one issuer. Approximately 18 percent of the District's unrestricted investments are in a money market account with Edward Jones Investments while 81 percent of the District's unrestricted investments are in mortgage-backed securities and U. S. Government agency securities. All of the restricted investments reported in the District's General Fund are in a fund that consists of U. S. Treasury Securities.

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

**C. Capital Assets**

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

	Balance 6/30/04	Additions	Retirements	Balance 6/30/05
Governmental activities:				
Land	\$ 15,578	\$ -	\$ -	\$ 15,578
Storage Building	1,800	-	(1,800)	-
Equipment	45,239	-	(38,989)	6,250
Computer Building	1,253	-	(1,253)	-
	<u>354,604</u>	<u>-</u>	<u>-</u>	<u>354,604</u>
Totals at historical cost	418,474	-	(42,042)	376,432
Less accumulated depreciation for:				
Storage Building	(1,800)	-	1,800	-
Equipment	(38,442)	(1,785)	37,027	(3,200)
Computer Building	(1,253)	-	1,253	-
	<u>(16,669)</u>	<u>(9,092)</u>	<u>-</u>	<u>(25,761)</u>
Total accumulated depreciation	<u>(58,164)</u>	<u>(10,877)</u>	<u>40,080</u>	<u>(28,961)</u>
Capital assets, net	<u>\$ 360,310</u>	<u>\$ (10,877)</u>	<u>\$ (1,962)</u>	<u>\$ 347,471</u>

**D. Long-Term Debt**

Note Payable

On July 30, 2002, the District entered into a loan agreement with the New Mexico Finance Authority (NMFA) to finance its office building. The amount of the loan was \$304,190 at 4.699% for twenty years with an annual principal interest payment of \$31,590.

STATE OF NEW MEXICO  
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	17,185	11,978	29,163
2007	17,846	11,319	29,165
2008	18,582	10,585	29,167
2009	19,378	9,791	29,169
2010	20,235	8,935	29,170
2011-2015	116,222	29,671	145,893
2016-2017	47,575	4,516	52,091
<b>Total</b>	<b><u>\$257,023</u></b>	<b><u>\$ 86,795</u></b>	<b><u>\$343,818</u></b>

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2005 was as follows:

**E. Restatement of Beginning Net Assets and Fund Balance**

To record the balance in an investment account of \$138 not previously recorded.

**IV. Other Information**

**A. Related Party Transactions**

The District purchased large quantities of Velpar Herbicide chemicals from the Vice-Chairman of the Board who owns Norris Cattle Company. The total amount purchased from Norris Cattle Company is \$7,915.50.

The District's Secretary/Treasurer purchased Velpar Herbicide chemicals from the District. The first purchase is dated, October 19, 2004 in the amount of \$166.25. The second purchase is dated, November 10, 2004 in the amount of \$332.50.

**B. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures that may be disallowed by

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LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**C. Employee Retirement and Post-Employment Benefits**

The District does not participate in the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978) and the Retiree Health Care Act (Chapter 10, Article 7C NMSA 1978), and does not offer a deferred compensation plan to its employee.

**D. 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 \$2,000,000 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 \$15,000 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

## 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. Brent Van Dyke, Chairman  
and Members of the Board of Supervisors  
Lea Soil and Water Conservation District  
401 Tatum Highway  
Lovington, New Mexico 88260

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Lea Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated April 27, 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. 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 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.

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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 recommendations as item 05-01 and 05-02.

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

April 27, 2006



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

**STATUS OF PRIOR YEAR AUDIT FINDINGS**

Finding 04-1. Missing Capital Asset Item – Resolved.

**CURRENT YEAR AUDIT FINDINGS**

05-1. Disposition of Capital Assets

**Condition**

During our audit test work of capital assets, we found that the District sold a Rock Rake Equipment at public auction. However, the District did not notify the Office of the State Auditor of its disposition of property.

**Criteria**

Sections 13-6-1 and 13-6-2 NMSA 1978, and the procurement code govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts, and state education institutions. At least thirty days prior to any such disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the State Auditor.

**Effect**

The District is in violation of Sections 13-6-1 and 13-6-2 NMSA 1978 because the previous administrative assistant was not aware of the State's laws and regulations.

**Cause**

Due to the turnover in administrative assistants, the District was not aware they had to report to the Office of the State Auditor for any disposal of capital assets.

**Recommendation**

We recommend that the District notify the State Auditor's Office of any dispositions of capital assets before disposal. In accordance with Section 13-6-1 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of any items of tangible

STATE OF NEW MEXICO  
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SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2005

personal property (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) 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.

Management's Response

Management concurs with the audit finding.

05-02. Missing Expenditure Documentation

Condition

During our test work of cash disbursements, we found two test items out of a total of forty-two test items that had no supporting documentation. The total of these two cash disbursement items were for chemical purchases in the total amount of \$7,916.

Criteria

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

Per state law, Section 13-1-158.A NMSA 1978, "No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications."

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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Per state law, Section 6-6-3 NMSA 1978, “every local public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division, make all reports as may be required by the local government division and conform to the rules and regulations adopted by the local government division.” The Local Government Division of the Department of Finance and Administration (LGD/DFA) has published a *Budgeting and Financial Accounting Manual for Local Governments* as authorized by 6-6-3 NMSA 1978 for Districts to comply with.

Cause

The District’s Administrative Assistant was not aware of the State’s laws and regulations.

Effect

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

Recommendation

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

Management’s Response

The District disagrees that there is a complete lack of control over the procurement and cash disbursement process. Such conclusions cannot be made on one (1) missing invoice.

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EXIT CONFERENCE  
JUNE 30, 2005

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor. However, the contents remain the responsibility of the District.

Exit Conference

On April 27, 2006, an exit conference was held at the District Office with Ms. Becky Jo Doom, Secretary/Treasurer and Ms. Melba Hamby, Administrative Assistant of the Lea Soil and Water Conservation District. Representing the Office of the State Auditor was Rosemary Whitegeese, Audit Supervisor.