

STATE OF NEW MEXICO

LEA

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

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JUNE 30, 2006

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STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

OFFICIAL ROSTER
JUNE 30, 2006

| <u>Board of Supervisors</u> | <u>Position</u> |
|-----------------------------|--------------------------|
| Brent Van Dyke | Chairman |
| John Norris | Vice-Chairman |
| Becky Jo Doom | Secretary/Treasurer |
| J. W. Spears | Supervisor |
| Rhea Howe | Supervisor |
| Alan Eades | Supervisor |
| Mark Daughtery | Supervisor |
| <u>District Personnel</u> | <u>Title</u> |
| Lorie Rohloff | Administrative Assistant |



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

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, 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, 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

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 15, 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 15, 2007

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

Exhibit 1

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Cash | \$ 11,702 |
| Investments | 67,792 |
| Restricted investments | 29,526 |
| Accrued interest receivable | 4 |
| Capital assets, net | 337,486 |
| Total assets | 446,510 |
| Liabilities | |
| Note payable: | |
| Portion due within one year | 17,846 |
| Portion due in more than one year | 221,688 |
| Total liabilities | 239,534 |
| Net Assets | |
| Invested in capital assets, net of related debt | 81,534 |
| Restricted for debt service | 29,526 |
| Unrestricted | 95,916 |
| Total net assets | \$ 206,976 |

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, 2006

| | | Governmental Activities |
|---|----|----------------------------|
| Program Expenses: | | |
| Conservation: | | |
| Personal services | \$ | 12,816 |
| Travel, per diem and mileage | | 4,410 |
| Equipment maintenance | | 4,830 |
| Advertisement | | 2,324 |
| Office supplies and printing | | 86 |
| Postage | | 84 |
| Utilities | | 6,156 |
| Education, conservation and stewardship | | 1,871 |
| Grants | | 7,407 |
| Dues | | 1,378 |
| Fidelity bond | | 132 |
| Building loan-interest | | 11,676 |
| Building insurance | | 1,159 |
| Building maintenance | | 20,154 |
| Janitor and janitorial supplies | | 5,544 |
| Miscellaneous | | 890 |
| Depreciation | | 9,985 |
| Total expenses | | <u>90,902</u> |
| Program revenues: | | |
| Operating grants: | | |
| Lea County grant | | 15,000 |
| Rolling rivers - State grant | | 500 |
| Water Quality Grant - NMSU | | 10,000 |
| Charges for services: | | |
| Brush control | | 156 |
| Equipment rentals | | 5,697 |
| Building rental income | | 43,128 |
| Total program revenues | | <u>74,481</u> |
| Net program (expense) revenue | | <u>(16,421)</u> |
| General Revenues: | | |
| State allocation - NMSU | | 9,944 |
| Insurance claim proceeds | | 27,653 |
| Investment income: | | |
| Interest income | | 3,902 |
| Loss on investment earnings | | (3,812) |
| Miscellaneous | | 277 |
| Total general revenues | | <u>37,964</u> |
| Net change in net assets | | <u>21,543</u> |
| Net assets at beginning of year | | 185,433 |
| Net assets at end of year | \$ | <u><u>206,976</u></u> |

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, 2006

| | General Fund |
|---|-------------------|
| Assets | |
| Cash | \$ 11,702 |
| Investments | 67,792 |
| Restricted investments | 29,526 |
| Accrued interest receivable | 4 |
| Total assets | \$ 109,024 |
| Liabilities and fund balance | |
| Liabilities: | |
| Accounts payable | \$ - |
| Total liabilities | - |
| Fund balance: | |
| Reserved for long-term debt | 29,526 |
| Unreserved, undesignated | 79,498 |
| Total fund balance | 109,024 |
| Total liabilities and fund balance | \$ 109,024 |

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 - GOVERNMENTAL FUNDS TO THE
 STATEMENT OF NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

| | |
|--|--------------------------|
| Fund Balance - Balance Sheet (Exhibit 3) | \$ 109,024 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 337,486 |
| Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds: | |
| Compensated absences | - |
| Note payable | <u>(239,534)</u> |
| Net Assets - Statement of Net Assets (Exhibit 1) | <u><u>\$ 206,976</u></u> |

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 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | General Fund |
|---|-------------------|
| Revenues | |
| State allocation -NMSU | \$ 9,944 |
| Water Quality Grant - NMSU | 10,000 |
| Lea County Grant | 15,000 |
| Building rental income | 43,128 |
| Equipment rentals | 5,697 |
| Insurance claim proceeds | 27,653 |
| Investment income: | |
| Interest income | 3,902 |
| Loss on investments | (3,812) |
| Brush control - chemical sales | 156 |
| Rolling Rivers - State grant | 500 |
| Miscellaneous | 277 |
| Total Revenues | 112,445 |
| Expenditures | |
| Conservation: | |
| Current: | |
| Personal services | 12,836 |
| Postage | 84 |
| Travel: Per diem and mileage | 4,410 |
| Equipment maintenance | 4,830 |
| Advertisement | 2,324 |
| Office supplies and printing | 86 |
| Utilities | 6,156 |
| Education, conservation and stewardship | 1,871 |
| Grants | 7,407 |
| Dues | 1,378 |
| Fidelity bond | 132 |
| Building loan-principal | 17,489 |
| Building loan-interest | 11,676 |
| Building insurance | 1,159 |
| Building maintenance | 20,153 |
| Miscellaneous | 890 |
| Janitor and janitorial supplies | 5,544 |
| Total expenditures | 98,425 |
| Net change in fund balance | 14,020 |
| Fund balance, beginning of year | 95,004 |
| Fund balance, end of year | \$ 109,024 |

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 - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | |
|---|-------------------------|
| Net change in fund balance - Governmental Funds (Exhibit 4) | \$ 14,020 |
| Amounts reported in the Statement of Activities are different because: | |
| Decrease in compensated absences | 19 |
| 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 | (9,985) |
| 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: | <u>17,489</u> |
| Net change in net assets - Statement of Activities (Exhibit 2) | <u><u>\$ 21,543</u></u> |

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

| | General Fund | | | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------------|--|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| State allocation - NMSU | \$ 9,800 | \$ 9,800 | \$ 9,944 | \$ 144 |
| Water Quality Grant - NMSU | 10,000 | 10,000 | 10,000 | - |
| Lea County Grant | 15,000 | 15,000 | 15,000 | - |
| Rolling Rivers - State Grant | - | - | 500 | 500 |
| Interest and investment income | 280 | 280 | 86 | (194) |
| Funds Transfer - capital fund | 15,000 | 15,000 | - | (15,000) |
| Other Charges for services - Brush Control | 25 | 25 | 156 | 131 |
| Other Revenues - Building rental income | 45,418 | 45,418 | 43,128 | (2,290) |
| Other Revenues - Equipment rental | 6,100 | 6,100 | 5,697 | (403) |
| Insurance Settlement Roof - Damage | - | - | 27,653 | 27,653 |
| Miscellaneous | - | - | 277 | 277 |
| Total revenues | <u>101,623</u> | <u>101,623</u> | <u>\$ 112,441</u> | <u>\$ 10,818</u> |
| Cash balance budgeted | 9,301 | 9,301 | | |
| Total revenues and cash balance budgeted | <u>\$ 110,924</u> | <u>\$ 110,924</u> | | |
| Expenditures | | | | |
| Current: | | | | |
| Personal services | \$ 15,000 | \$ 15,000 | \$ 10,812 | \$ 4,188 |
| Employee benefits | 1,900 | 1,900 | 2,024 | (124) |
| Postage | 300 | 300 | 84 | 216 |
| Travel | 6,500 | 6,500 | 4,410 | 2,090 |
| Building maintenance & repair | 1,500 | 1,500 | 20,153 | (18,653) |
| Contractual services - janitor | 4,800 | 4,800 | 5,544 | (744) |
| Equipment maintenance and repair | 5,000 | 5,000 | 4,830 | 170 |
| Brush control | 1,000 | 1,000 | - | 1,000 |
| Hospitality | 200 | 200 | 377 | (177) |
| Office supplies and printing | 2,425 | 2,425 | 86 | 2,339 |
| Utilities and telephone | 8,550 | 8,550 | 6,156 | 2,394 |
| Education/Stewardship | 2,500 | 2,500 | 1,871 | 629 |
| Legal notices | 900 | 900 | 2,324 | (1,424) |
| D.C. Lobby Trip | 2,515 | 2,515 | - | 2,515 |
| Dues | 1,500 | 1,500 | 1,378 | 122 |
| Bond & Building insurance | 1,655 | 1,655 | 1,291 | 364 |
| Building loan - principal | 17,132 | 17,132 | 17,489 | (357) |
| Building loan - interest & admin fees | 12,033 | 12,033 | 11,676 | 357 |
| Funds Transfer | 15,000 | 15,000 | - | 15,000 |
| Grants - Water Quality | 10,000 | 10,000 | 7,407 | 2,593 |
| Capital purchases | 500 | 500 | - | 500 |
| Other operating costs | 14 | 14 | 513 | (499) |
| Total expenditures | <u>\$ 110,924</u> | <u>\$ 110,924</u> | <u>\$ 98,425</u> | <u>\$ 12,499</u> |

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

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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). 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, 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
LEA 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. Other items not properly included among program revenues are reported instead as general revenues. Program specific operating grants and contributions consist of the Lea County Grant and the Rolling Rivers State Grant. Charges for services consist of Brush Control Sales, equipment rentals and building rental income.

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, 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.

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, 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 \$5,000 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, 2006

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:

| | |
|-----------|----------|
| Building | 39 years |
| Equipment | 7 years |

4. Compensated Absences

During the current fiscal year, the District's policy did not offer its employee any vacation or sick leave.

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, 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.

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, 2006

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

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

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

| | |
|-------------------------------|---------------------|
| | <u>General Fund</u> |
| Non-GAAP revenues (Exhibit 5) | \$ 112,441 |
| Prior year receivables | - |
| Current year receivables | 4 |
| GAAP revenues (Exhibit 4) | <u>\$ 112,445</u> |

III. Detailed Notes on all Funds

A. Cash

As of June 30, 2006, the District had a carrying amount of deposits of \$21,988. The bank balance for deposits is \$27,336. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$5,348. The bank balance consists of:

| | |
|------------------------------|-----------|
| <u>Western Commerce Bank</u> | |
| Demand deposits | \$ 17,050 |

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Less: FDIC coverage (17,050)
Uninsured bank balance \$ -0-

Ohio Casualty Insurance – Restricted Account

Time deposits \$ 10,286
Less: FDIC coverage (10,286)
Uninsured bank balance \$ -0-

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 \$27,336 was exposed to custodial credit risk since 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, 2006, the District’s investment balances were as follows:

| Account name: | Type of Investment: | Name of Broker: | Reconciled balance at 6/30/06: |
|---------------------------------|--|---------------------|--------------------------------|
| Cash & Money Market | Money Market Account | Edward Jones | \$ 13,950 |
| Bonds | U.S. Government and agency securities: FHLMC | Edward Jones | 41,154 |
| Bonds | Assets & Mortgage Backed Securities: GNMA POOL | Edward Jones | 2,259 |
| U.S. Treasury | Dividends Ap Inst US Treasury FD #0042 | Bank of Albuquerque | 143 |
| Total unrestricted investments: | | | \$ 57,506 |

| U.S. | Dividends | Ap | Inst | U.S. | Bank of |
|------|-----------|----|------|------|---------|
| | | | | | |

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

| | | | |
|-------------------------------|-------------------|-------------|-----------|
| Treasury | Treasury FD #0042 | Albuquerque | \$ 29,526 |
| Total restricted investments: | | | \$ 29,526 |

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

| | |
|---------------------------------------|-------------------|
| Fair value at June 30, 2006 | \$ 87,032 |
| Less: Restricted Investments for FY05 | (29,307) |
| Add: Proceeds of investments sold | 680 |
| Less: Cost of investments purchased | (3,299) |
| Less: Fair value at June 30, 2005 | (58,019) |
| Decrease in fair value of investments | <u>\$ (2,913)</u> |

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, 2006, the \$57,506 in unrestricted investments and \$29,526 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, 2006, the District's investments in U.S. Government agency securities (FHLMC) were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's and Fitch Ratings.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in Federal Home Loan Mortgage Corp. These investments are 47.3 % of the District's total investments.

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

C. Capital Assets

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

| | Balance 6/30/05 | | Additions | Deletions | Balance 6/30/06 | |
|------------------------------------|--------------------|----|-------------------|-------------|--------------------|----|
| | \$ | \$ | | | \$ | \$ |
| Governmental activities: | | | | | | |
| Land | \$ 15,578 | | - | - | \$ 15,578 | |
| Equipment | 6,250 | | - | - | 6,250 | |
| Building | 354,604 | | - | - | 354,604 | |
| Totals at historical cost | <u>376,432</u> | | <u>-</u> | <u>-</u> | <u>376,432</u> | |
| Less accumulated depreciation for: | | | | | | |
| Equipment | (3,200) | | (893) | - | (4,093) | |
| Building | (25,761) | | (9,092) | - | (34,853) | |
| Total accumulated depreciation | <u>(28,961)</u> | | <u>(9,985)</u> | <u>-</u> | <u>(38,946)</u> | |
| Capital assets, net | <u>\$ 347,471</u> | | <u>\$ (9,985)</u> | <u>\$ -</u> | <u>\$ 337,486</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 4.6999% for twenty years with annual principal and interest payments of approximately \$29,165.

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|-------------------|------------------|-------------------|
| 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 | 21,151 | 8,022 | 29,173 |
| 2012-2016 | 121,826 | 24,073 | 145,899 |
| 2017 | 20,516 | 2,395 | 22,911 |
| Total | <u>\$ 239,534</u> | <u>\$ 75,120</u> | <u>\$ 314,654</u> |

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Changes in Long-term Liabilities

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

| | Balance 6/30/2005 | Increases | Decreases | Balance 6/30/2006 | Amount due within 1 year |
|-------------------------|----------------------|-------------|------------------|----------------------|-----------------------------|
| Note payable | \$ 257,023 | \$ - | \$ 17,489 | \$ 239,534 | \$ 17,846 |
| Compensated absences | \$ 19 | \$ - | \$ 19 | \$ - | \$ - |
| Total | <u>\$ 257,023</u> | <u>\$ -</u> | <u>\$ 17,489</u> | <u>\$ 239,534</u> | <u>\$ 17,846</u> |

IV. Other Information

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

B. 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.

C. 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

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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.



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. 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, 2006 and have issued our report dated March 15, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 15, 2007

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

- Finding 05-01. Disposition of Capital Assets – Resolved.
- Finding 05-02. Missing Expenditure Documentation – Resolved.

CURRENT YEAR AUDIT FINDINGS

None.

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT

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 15, 2007, an exit conference was held at the District Office with Rhea Howe, Board Supervisor and Lorie Rohloff, Administrative Assistant of the Lea Soil and Water Conservation District. Representing the Office of the State Auditor was Rosemary Whitegese, Audit Supervisor. The results of the audit were discussed.