



STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
LOVINGTON, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2009

De'Aun Willoughby CPA, PC
Certified Public Accountant
Melrose, New Mexico



STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
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STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
Official Roster
June 30, 2009

BOARD OF SUPERVISORS

Brent Van Dyke	Chairman
John Norris	Vice-Chairman
Ron Glass	Secretary/Treasurer
J.W. Spears	Supervisor
Rhea Howe	Supervisor
Alan Eades	Supervisor
Mark Daughtery	Supervisor

DISTRICT PERSONNEL

Donna Rowland	Administrative Assistant
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De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(575) 253-4313

Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the LEA SOIL & WATER CONSERVATION DISTRICT

Mr. Balderas and Members of the Board

We have audited the accompanying financial statements of the governmental activities the general fund and the budgetary comparison of the Lea Soil & Water Conservation District (District), as of and for the year ended June 30, 2009, 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 an opinion 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 with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of 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 opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund and the aggregate remaining fund information of the District as of June 30, 2009, and the respective changes in its financial position and the respective budgetary comparisons for major governmental funds 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 that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements and budgetary comparisons presented as supplemental information.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2009 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

De'Aun Willoughby CPA PC

September 21, 2009

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
 Government-Wide Statement of Net Assets
 June 30, 2009

	Governmental Activities
ASSETS	
Cash in Banks	\$ 84,662
Investments	68,216
Restricted Investments	29,206
Capital Assets, net	307,531
Total Assets	489,615
LIABILITIES	
Note Payable	
Portion due within one year	20,235
Portion due in more than one year	163,493
Total Liabilities	183,728
NET ASSETS	
Invested in capital assets, net of related debt	123,803
Restricted for debt service	29,206
Unrestricted	152,878
Total Net Assets	\$ 305,887

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

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
 Government-Wide Statement of Activities
 For the Year Ended June 30, 2009

	Governmental Activities
Program Expenses	
Advertising	\$ 3,715
Board Expenses	5,304
Building Expenses	25,426
Conservation Expenses	23,464
Education/Stewardship	968
Equipment Expense	5,858
Office Expense	11,252
Payroll Expense	18,103
Employee Benefits	1,021
Interest	9,791
Depreciation	9,985
Total Program Expenses	<u>114,887</u>
Program Revenues	
Charge for Services	55,933
Operating Grant	89,900
Total Program Revenues	<u>145,833</u>
Net Program (Expense) Revenue	<u>30,946</u>
General Revenues	
State Allocation	10,213
Miscellaneous	2,899
Interest Income	4,319
	<u>17,431</u>
Change in Net Assets	48,377
Net Assets at Beginning of Year	<u>257,510</u>
Net Assets at End of Year	<u>\$ 305,887</u>

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

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2009

ASSETS	
Cash and Cash Equivalents	\$ 84,662
Investments	68,216
Restricted Investments	<u>29,206</u>
Total Assets	<u>\$ 182,084</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Current Liabilities	
Accounts Payable	\$ <u>0</u>
Total Liabilities	<u>0</u>
Fund Balances	
Reserved for Long-Term Debt	29,206
Unreserved Reported In:	
General Fund	<u>152,878</u>
Total Fund Balances	<u>182,084</u>
Total Liabilities and Fund Balances	<u>\$ 182,084</u>

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 Governmental Funds
 Balance Sheet to the Statement of Net Assets
 June 30, 2009

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

Total Fund Balance - Governmental Funds		\$	182,084
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
	The cost of capital assets	\$	376,432
	Accumulated depreciation is	\$	<u>(68,901)</u>
			<u>307,531</u>
Long-term and certain other liabilities, including notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
			<u>(183,728)</u>
Total net assets - governmental activities		\$	<u><u>305,887</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
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures and Changes
in Fund Balance
For the Year Ended June 30, 2009

Revenues	
State Allocation-NMSU	\$ 10,213
Lea County Grant	89,900
Equipmental Rental	4,155
Building Rental	49,140
Sales	2,638
Interest Income	4,319
Miscellaneous	2,899
Total Revenues	<u>163,264</u>
Expenditures	
Current	
Advertising	3,715
Board Expenses	5,304
Building Expenses	25,426
Conservation Expenses	23,464
Education/Stewardship	968
Equipment Expense	5,858
Office Expense	11,252
Payroll Expense	18,103
Employee Benefits	1,021
Debt Service	
Building Loan-Principal	19,378
Building Loan-Interest	9,791
Total Expenditures	<u>124,280</u>
Excess (Deficiency) of Revenues Over Expenditures	38,984
Fund Balances at Beginning of Year	<u>143,100</u>
Fund Balance End of Year	<u>\$ 182,084</u>

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 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
 to the Statement of Activities
 June 30, 2009

Net Change in Fund Balance-Governmental Funds \$ 38,984

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

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

Capital Outlay	\$	0	
Depreciation expense		<u>(9,985)</u>	(9,985)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

19,378

Changes in Net Assets of Governmental Activities

\$ 48,377

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

LEA SOIL AND WATER CONSERVATION DISTRICT

GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Cash Balance -General Fund

Budget and Actual (Budgetary Basis)

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
State Allocation-NMSU	\$ 10,000	\$ 10,000	\$ 10,213	\$ 213
Lea County Grant	50,000	50,000	89,900	39,900
Equipmental Rental	1,000	1,000	4,155	3,155
Building Rental	49,140	49,140	49,140	0
Sales	2,000	2,000	2,638	638
Interest Income	3,500	3,500	4,319	819
Miscellaneous	1,000	1,000	2,899	1,899
Total Revenues	<u>116,640</u>	<u>116,640</u>	<u>163,264</u>	<u>46,624</u>
Expenditures				
Advertising	3,600	3,600	3,715	(115)
Board Expenses	10,000	10,000	5,304	4,696
Building Expenses	25,000	25,000	25,426	(426)
Conservation Expenses	25,000	25,000	23,464	1,536
Education/Stewardship	1,000	1,000	968	32
Equipment Expense	10,000	10,000	5,858	4,142
Office Expense	12,500	12,500	11,252	1,248
Payroll Expense	20,000	20,000	18,103	1,897
Employee Benefits	1,500	1,500	1,021	479
Building Loan-Principal	19,378	19,378	19,378	0
Building Loan-Interest	9,791	9,791	9,791	0
Total Expenditures	<u>137,769</u>	<u>137,769</u>	<u>124,280</u>	<u>13,489</u>
Excess (Deficiency) of Revenues Over Expenditures	(21,129)	(21,129)	38,984	60,113
Beginning Cash Balance	<u>143,106</u>	<u>143,106</u>	<u>143,106</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 121,977</u>	<u>\$ 121,977</u>	<u>\$ 182,090</u>	<u>\$ 60,113</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ <u>38,984</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ <u>38,984</u>	

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

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

The financial 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.

available

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). 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 non fiduciary 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 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) sales of chemicals to customers, equipment rental to customers and rental of the building to the FSA office of the federal government. and 2) contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State grants, interest income and other items are not properly included among program revenues are reported instead as general revenues.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

Grants 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:

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 after November 30, 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

Cash and Investments

The District's cash consists of demand deposits. State statutes authorize the District to invest in certificates of deposit and the State Treasurer's Local Government Investment Pool. The State Treasurer's Local Government Investment Pool is not SEC registered. Section 6-10-10 I through 6-10-10 P and Sections 6-10-10.1 A and E, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in short-term investment fund in securities that are issued by the United States government or by its department or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month, all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly

proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the local government investment pool is voluntary. The investments are carried at fair value based on quoted market prices as of the valuation date.

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.

Capital Assets

Capital assets, which include property, equipment (including software), farm equipment and furniture 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:

Building	39 years
Equipment	7 years

Accounts payable

The account payable as of the balance sheet date includes routine monthly bills for services rendered and products purchased which are paid in the following month.

Compensated Absences

The District employee does not earn annual vacation or sick leave.

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 four components — invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, restricted for the benevolence fund, restricted for the loan program 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 the loan program. The loan program 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:

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

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. There were no changes made to the budget during the fiscal year. Encumbrance accounting is not utilized by the District.

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

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and GAAP (Generally Accepted Accounting Principles) basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budget basis for the governmental funds are presented on each individual Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget and Actual (Budgetary Basis).

Reconciliations are located at the bottom of each budget actual.

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes on all Funds

A. Cash and Investments

Western Commerce Bank

Account Name	Account Type	Bank Balance	Reconciled Balance
Lea Soil & Water Conservation District	Checking	\$ 95,385	\$ 84,662
	Total	95,385	84,662
	Less: FDIC coverage	(95,385)	
	Amount uninsured	\$ 0	

The difference between the bank balance and the reconciled balance is outstanding deposits, outstanding checks and pending bank adjustments.

Custodial Credit Risk — Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2009, none of the Districts bank balances were exposed to custodial credit risk.

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, 2009 the District's investment balances were as follows:

Account Name	Type of Investment	Name of Broker	Reconciled balance at 6/30/2009
Cash & Money Market	Money Market Account	Edward Jones	\$ 23,542
Bonds	US Government and Agency Securities: FHLMC	Edward Jones	34,699
Bonds	Assets & Mortgage Backed Securities: GNMA POOL	Edward Jones	9,975
	Total unrestricted investments		\$ 68,216
U.S Treasury-Restricted	Dividends Ap Inst US Treasury FD #0042	Bank of Albuquerque	\$ 29,206

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

Fair value at June 30, 2009	\$ 93,203
Add: Proceeds of investment sold	817
Less: Cost of investments purchased	0
Less: Fair value at June 30, 2008	(97,422)
Decrease in fair value of investments	\$ (3,402)

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2009

Custodial Credit Risk-Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterpart, 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, 2009 the \$68,216 of unrestricted investments and \$29,206 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 district 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, 2009, 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% of the District's investments are in Federal Home Loan Mortgage Corporation. These investment are 37.3% of the District's total investments.

C. Capital Assets

	Balance 6/30/08	Additions	Deletions	Balance 6/30/09
Capital Assets, being Depreciated				
Land	\$ 15,578	\$ 0	\$ 0	\$ 15,578
Equipment	6,250	0	0	6,250
Building	354,604	0	0	354,604
Total Capital Assets, being Depreciated	<u>376,432</u>	<u>0</u>	<u>0</u>	<u>376,432</u>
Less Accumulated Depreciation				
Equipment	5,879	893	0	6,772
Building	53,037	9,092	0	62,129
Total Accumulated Depreciation	<u>58,916</u>	<u>9,985</u>	<u>0</u>	<u>68,901</u>
	<u>\$ 317,516</u>	<u>\$ (9,985)</u>	<u>\$ 0</u>	<u>\$ 307,531</u>

Depreciation expense was charged to governmental activities as follows:

Conservation	\$ 9,985
Total depreciation expenses	<u>\$ 9,985</u>

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2009

D. Long-Term Debt

	Balance 6/30/08	Reductions	Balance 6/30/09	Current Portion Due
NMFA Loan	\$ 203,106	\$ 19,378	\$ 183,728	\$ 20,235
Total Notes Payable	<u>\$ 203,106</u>	<u>\$ 19,378</u>	<u>\$ 183,728</u>	<u>\$ 20,235</u>

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 4.599% for twenty years with annual principal and interest payments of approximately \$29,165.

Year Ending June 30,	Principal	Interest	Total
2010	20,235	8,935	29,170
2011	21,151	8,022	29,173
2012	22,419	6,746	29,165
2013	23,555	5,610	29,165
2014	24,747	4,418	29,165
2015-2017	71,621	5,494	77,115
	<u>\$ 183,728</u>	<u>\$ 39,225</u>	<u>\$ 222,953</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 the time, although the government expects such amounts, if any, to be immaterial.

B. Employee Benefits

The District does not provide its employee any pension plan, deferred compensation plan or post-employment benefits.

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 \$1,000,000 for the policy aggregated. The District is required to obtain a corporate fidelity bond on behalf of persons responsible for District assets. The District currently maintains a \$10,000 fidelity bond on its Program Director and Board of Supervisors. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(575) 253-4313

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the LEA SOIL & WATER CONSERVATION DISTRICT

Mr. Balderas and Members of the Board

We have audited the financial statements of the governmental activities, the general fund and the budgetary comparison of the Lea Soil & Water Conservation District, (District), as of and for the year ended June 30, 2009, and have issued our report thereon dated September 21, 2009. 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 as a basis for designing the auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as item 07-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of it's 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 one 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 item 07-3, 07-4 and 07-5.

The District's response to the finding in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the New Mexico State University-Department of Agriculture, New Mexico Legislature and its committees, the Office of the State Auditor and the New Mexico Department of Finance and Administration - Local Government and is not intended to be and should not be used by anyone other than these specified parties.

De'Ann Willoughby, CPA PC

September 21, 2009

STATE OF NEW MEXICO
LEA SOIL AND WATER CONSERVATION DISTRICT
 Schedule of Findings and Responses
 June 30, 2009

Prior Year Audit Findings

	<u>Status</u>
07-1 Preparation of Financial Statements	Repeated
07-2 Late Audit Report	Resolved
07-3 Department of Labor Payments	Repeated
07-4 Inadequate Maintenance of Deductions, Pay Schedules, Personnel Files	Repeated
07-5 Failure to File Tax Form 941	Repeated

Current Year Audit Findings

07-1 Preparation of Financial Statements

Condition

The individuals responsible for the accounting functions for the District lacks the skills and knowledge to apply generally accepted accounting principals in preparing the entity's financial statements. The accounting management has not obtained training to adequately apply the generally accepted accounting principals, which includes GASB 34 and subsequent pronouncements. The Financial statements were prepared by the auditor.

Criteria

Statement on Accounting Standards (SAS) 112, Communication of Internal Control Related Matters Identified in an Audit, requires that management clearly accept responsibility for preparing all financial information and company's financial statements.

Effect

Individuals, without the aid of its auditors, are unable to accurately prepare the District's financial statements in accordance with the accounting standards with the regard to apply generally accepted accounting principals.

Cause

Individuals responsible for the accounting and reporting functions for the District have not received training relating to the preparation of the District's financial statements in accordance with GASB (Governmental Accounting Standards Board) Statement No 34 and subsequent pronouncements.

Recommendation

We recommend the District's accounting management receive training relating to the preparation of the District's financial statements in accordance with generally accepted accounting principles. This would give the accounting management responsible for the accounting and reporting functions the skills and knowledge to apply generally accepted accounting principals to the financial statements.

Response

The District will continue to accept the assistance of the auditors in preparing the financial statements in accordance with GASB (Governmental Accounting Standards Board) Statement No 34 and subsequent pronouncements. The district will continue to seek the training to obtain the skills and knowledge to prepare the District's financial statements.

07-3 Department of Labor Payments

Condition

The Quarterly reports could not be found to determine if they were filed timely.

Criteria

According to New Mexico Department of Labor regulations all wages paid to employees are to reported quarterly. Also, any wages paid over the taxable base rate of \$17,900 are to be considered excess wages and reported as such on the quarterly report.

Effect

The District could be subject to additional taxes and penalties.

Cause

Documents were not kept in a orderly fashion and the employee was unable to locate the documents.

Recommendation

We recommend that the District keeps important documents in organized and designated area to be easily found when requested and to ensure the timeliness of filing.

Response

We will be more diligent to keep document organized to timely file reports.

07-4 Inadequate Maintenance of Deductions, Pay Schedules, Personnel Files

Condition

During our test work of payroll and payroll related reports we noted the employee's did not include proper I-9 form documentation, W-4's and authorized deductions.

Criteria

The Immigration Reform and Control Act of 1986 requires all employees hired after November 6, 1986 to complete a Form I-9 within 3 days of hire. This form is to be retained for three years after the date of hire or one year after employment ends, whichever is later.

Effect

The District is not in compliance with the Immigration Reform & Control Act of 1986 and could be subject to penalties and fines.

Cause

The District was unaware of this regulation and requirement to obtain and maintain forms.

Recommendation

The District must require all employees to complete the necessary forms and retain the necessary documents in each employee's personnel file. In addition, the District should make periodic checks to ensure all such information is being properly maintained.

Response

The employee has completed the required forms in and placed them in a personnel file.

07-5 Failure to File Tax Form 941

Condition

The District could not produce to us the 941 Quarterly reports to determine if they were filed timely.

Criteria

IRS Tax Code Title 29 requires the filing of Form 941 after each quarter reporting wages paid employer payroll taxes to be paid.

Effect

The District is in violation of the IRS Tax Code Title 29 and subject to the penalties set within for failure to file Form 941.

Cause

The District failed to file the Form 941 on time.

Recommendation

The District must implement controls to ensure that compliance to all IRS Tax Code requirements are adhere to completely.

Response

The District has hired a CPA firm to help in filing the required tax forms.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby CPA. However, they are the responsibility of management.

Exit Conference

An exit conference was held on September 21, 2009. Those present were John Norris-Vice Chairman, Rhea Howe-Supervisor, Donna Rowland-Administrative Assistant and De'Aun