

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER
CONSERVATION DISTRICT**

**INDEPENDENT AUDITORS' REPORT
AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

**HINKLE & LANDERS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2007**

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**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**

**OFFICIAL ROSTER
AS OF JUNE 30, 2007**

<u>Board of Supervisors</u>	<u>Position</u>	<u>Elected/Appointed</u>
David King	Chairperson	Appointed
Lewis Fisher	Vice-Chairperson	Elected
Bill King	Secretary/Treasurer	Elected
Mark Anaya	Supervisor	Elected
Jim Rea	Supervisor	Elected
Josephine Bassett	Supervisor	Elected
Patricia Ayre	Supervisor	Appointed

<u>District Personnel</u>	<u>Title</u>
Brenda Smythe	Office Manager
Kelly Archuleta	Technician

INDEPENDENT AUDITORS' REPORT

Mr. David King, Chair and Members of the Board of Supervisors
Edgewood Soil and Water Conservation District
Moriarty, New Mexico
and
Mr. Hector Balderas, State Auditor of New Mexico

We were engaged to audit the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Edgewood Soil and Water Conservation District (District) as of and for the year ended June 30, 2007 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.

We discovered a significant number of transactions for which sufficient audit evidence was unable to be located. Furthermore, the District has not maintained adequate accounting records for the year ended June 30, 2007 and we were unable to apply procedures to determine whether the opening balances in the financial statements as of July 1, 2006 were fairly presented in conformity with accounting principles generally accepted in the United States of America or whether the accounting principles have been consistently applied between 2006 and 2007.

Since the District did not maintain adequate records and we were unable to apply other auditing procedures to satisfy ourselves about the opening balances in the financial statements as of July 1, 2006 or about the consistent application of accounting principles between 2006 and 2007, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The District has not presented the Management's Discussion and Analysis required by GASB Statement No. 34 that the Governmental Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Governmental Auditing Standards*, we have issued a report dated May 31, 2010 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.



Hinkle and Landers, P.C.
May 31, 2010

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007**

	<u>Governmental Activities</u>
Assets	
Current	
Cash and Investments	\$ 158,435
Taxes receivable	8,060
Interest receivable	-
Accounts receivable	-
Total current assets	<u>166,495</u>
Non current	
Capital assets, not being depreciated	1,274,347
Capital assets being depreciated, net	123,937
Capital assets, net of accumulated depreciation	<u>1,398,284</u>
Total assets	<u><u>\$ 1,564,779</u></u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 8,319
Accrued payroll	1,248
Compensated absences	-
Note Payable - current portion	17,279
Total current liabilities	<u>26,846</u>
Long-term liabilities	
Note Payable - non-current portion	396,392
Compensated absences - long term portion	-
Total long-term liabilities	<u>396,392</u>
Total liabilities	<u>423,238</u>
Net Assets	
Invested in capital assets, net of related debt	984,613
Unrestricted	156,928
Total net assets	<u>1,141,541</u>
Total liabilities and net assets	<u><u>\$ 1,564,779</u></u>

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

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	Governmental Activities
Program Expenses	
Conservation:	
Salaries	\$ 88,410
Per diem and travel	10,086
Office supplies	23,807
Telephone	7,569
Meetings and workshops	7,614
Legal notices/meetings	-
Dues	180
Insurance	6,576
Interest	9,518
Professional fees - clerical	-
Information and education	9,270
Projects	182,298
Rent	12,285
Miscellaneous	27,036
Depreciation	6,655
Accounting errors	(39,772)
Total program expenses	351,532
Program Revenues	
Charges for services: conservation sales	37,056
Reimbursements	-
Miscellaneous	-
Total program revenues	37,056
Net program (expense) revenue	(314,476)
General Revenues	
Other financing sources - capital projects	194,436
NMDA allotment	68,200
Property taxes	297,161
Interest	4,084
Total general revenues	563,881
Change in net assets	249,405
Net assets at beginning of year	892,136
Net assets at end of year	\$ 1,141,541

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

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2007**

		<u>General Fund</u>
Assets		
Cash and investments	\$	158,435
Property taxes receivable		8,060
Total assets	\$	<u>166,495</u>
 Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$	8,319
Accrued payroll		1,248
Total liabilities		<u>9,567</u>
 Fund balance		<u>-</u>
 Total fund balance		<u>156,928</u>
 Total liabilities and fund balance	\$	<u>166,495</u>

Reconciliation Of The Balance Sheet To The Statement Of Net Assets

Total fund balance governmental funds	\$	156,928
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds		1,398,284
Other current liabilities (notes payable) are not available to pay for current period		(17,279)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet:		
Notes payable		(396,392)
Net assets of governmental activities	\$	<u>1,141,541</u>

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

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>General Fund</u>
Revenues	
State allocation	\$ 68,200
Mill levy	297,161
Interest	4,084
Conservation sales	37,056
Total revenues	406,501
Expenditures	
Current: Conservation:	
Salaries	88,410
Per diem and travel	10,086
Office supplies	23,807
Telephone	7,569
Meetings and workshops	7,614
Dues	180
Insurance	6,576
Information and education	9,270
Projects	182,298
Rent	12,285
Miscellaneous	27,036
Accounting errors	(39,772)
Non-current	
Debt Service	
Principal payments - debt service	13,840
Interest payments - debt service	9,518
Capital outlay	768,874
Total expenditures before other financing sources	1,127,591
Excess (deficiency) of revenues over expenditures	(721,090)
Other financing sources	
Proceeds from long-term capital related debt	427,511
Other financing sources - capital projects	194,436
Net change in fund balance	(99,143)
Fund balance beginning of year	256,071
Fund balance end of year	\$ 156,928
 Reconciliation of Statement of Activities to Statement of Revenues, Expenditures and Changes in Fund Balances	
Net change in fund balance - Governmental Funds	\$ (99,143)
Amounts reported in Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of assets are allocated as their estimated useful life as depreciation expense	
Depreciation expense	(6,655)
Capital outlay included as additions in capital assets	768,874
Note payable proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the Statement of Net Assets	(427,511)
Principal payments on notes payable included in governmental funds but not in the statement of activities:	13,840
Property taxes arise from non-exchange transactions and are recognized in the Statement of Activities in the year levied. In governmental funds they are recognized as revenue when they are measurable and available.	-
Change in net assets - Statement of Activities	\$ 249,405

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

STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

General Fund				
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
State allocation	\$ 10,000	10,000	68,200	58,200
Mill levy	278,589	278,589	297,161	18,572
Interest	2,260	2,260	4,084	1,824
Conservation sales	21,350	21,350	37,056	15,706
Capital outlay funding	225,000	225,000	194,436	(30,564)
NM Finance Authority loan	400,000	400,000	427,511	27,511
Total revenues	<u>937,199</u>	<u>937,199</u>	1,028,448	91,249
Cash balance budgeted	136,217	136,217	-	-
Total revenues	<u>\$ 1,073,416</u>	<u>1,073,416</u>	<u>1,028,448</u>	<u>91,249</u>
Expenditures				
Current				
Bonding	\$ 1,500	1,500	6,576	(5,076)
Dues	2,800	2,800	180	2,620
Education	10,000	10,000	9,270	730
Equipment/Project Materials	-	-	100,984	(100,984)
Meetings	3,000	3,000	7,614	(4,614)
Office	8,000	8,000	24,028	(16,028)
Payroll	91,616	91,616	68,150	23,466
Payroll expenses	-	-	20,260	(20,260)
Professional services	37,555	37,555	-	37,555
Project/conservation	100,000	100,000	90,832	9,168
Rent & utilities	22,445	22,445	16,208	6,237
Telephone	-	-	7,569	(7,569)
Truck leasing and insurance	9,500	9,500	7,571	1,929
Travel	10,000	10,000	10,086	(86)
Miscellaneous	2,000	2,000	5,803	(3,803)
Accounting errors	-	-	(39,772)	39,772
Capital outlay	775,000	775,000	768,874	6,126
Debt service				
Principal payments - debt service	-	-	13,840	(13,840)
Interest payments - debt service	-	-	9,518	(9,518)
Total expenditures	<u>\$ 1,073,416</u>	<u>1,073,416</u>	<u>1,127,591</u>	<u>(54,175)</u>

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

STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District, a phase three government, was required to implement GASB Statement 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* in fiscal year 2004. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

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

Separate financial statements are provided for governmental funds.

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

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

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

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

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

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

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

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

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

rather than program revenues. Likewise, general revenues include all taxes.

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

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

1. Cash and Investments

The District's cash and cash equivalents are considered to be demand deposits and short term investments (certificates of deposit) with original maturities of 3 months or less are presented as investments in the financial statements.

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

2. Taxes Receivable

The District receives mill-levy property tax revenue from the counties of Bernalillo, Santa Fe, and Torrance. The taxes are collected by the respective county treasurer and are paid to the District monthly; therefore, no allowance for doubtful accounts is recorded.

3. Accounts Payable

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

4. Capital Assets

Capital assets, which include property, equipment and software, 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	5-14 years

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

5. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. Vacation pay has not been accrued as of June 30, 2007.

According to District policy, employees accrue leave at 3.08 hours per pay period if employed less than three years, increasing to 4 hours for less than seven years, 5 hours for less than eleven years, 6 hours for less than fifteen years, and 6.30 hours for 15 or more years. Employees may not carry more than 240 hours forward from one calendar year to the next.

6. 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 two components – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation and unrestricted net assets.

In 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.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

B. Reconciliation of Non-GAAP Budget to GAAP

	General Fund
Non-GAAP revenues	\$ 1,014,608
NMFA loan	(413,671)
Other Financing Sources	<u>(194,436)</u>
GAAP revenues	<u>\$ 406,501</u>
Non-GAAP expenditures	\$ 1,127,591
GAAP expenditures	<u>\$ 1,127,591</u>

Note: The availability of cash basis budget amounts were not available during our audit. Therefore, there are no reconciliations for many accruals that would normally be expected.

III. Detailed Notes on all Funds

A. Cash and Investments

As of June 30, 2008, the District's total carrying amount of deposits of \$157,294 at Wells Fargo. There were outstanding reconciling items totaling a net \$20,105. The bank balances were not fully covered by federal depository insurance. It appears that there were no uninsured bank balances as of June 30, 2008. See as follows:

	Wells Fargo Bank
Demand deposits per bank	\$ 60,820
Less: FDIC insurance	<u>(60,820)</u>
Uninsured balance	<u>\$ -</u>
NOW Account	2,510
Certificates of deposit	95,105
Total time deposits	97,615
Less: FDIC insurance	(97,615)
Uninsured balance	<u>-</u>
Total uninsured balances	<u><u>-</u></u>

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 risk. Deposits at the Wells Fargo Bank were exposed to custodial credit risk is unknown due to the unavailability of collateral information.

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

B. Capital Assets

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

Description	Balance 2006	Additions	Deletions	Balance 2007
Capital assets not being depreciated				
Land	\$ 606,716	-	-	606,716
Construction in progress	11,139	656,492	-	667,631
Total capital assets not being depreciated	617,855	656,492	-	1,274,347
Capital assets being depreciated				
Equipment	31,014	81,626	-	112,640
Vehicles	-	30,756	-	30,756
Total capital assets being depreciated	31,014	112,382	-	143,396
Total capital assets	\$ 648,869	768,874	-	1,417,743
Less: accumulated depreciation for:				
Equipment	\$ (12,804)	(5,630)	-	(18,434)
Vehicles	-	(1,025)	-	(1,025)
Total accumulated depreciation	(12,804)	(6,655)	-	(19,459)
Capital assets, net	\$ 636,065	762,219	-	1,398,284

Depreciation of \$6,655 was charged to the conservation function.

C. Long-Term Debt

Long-term debt activity for the year ended June 30, 2007 was as follows:

During the fiscal year ended June 30, 2007, the District entered into a mortgage agreement with New Mexico Finance Authority in the amount of \$427,511 for their agricultural and office building project. The term of this loan is twenty years and carries a 2.35% interest rate. The outstanding principal balance at June 30, 2007 is \$413,671. Minimum principal payments are approximately as follows:

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

June 30,	<u>Principal</u>	<u>Interest</u>
2008 \$	17,279	-
2009	17,690	-
2010	18,110	-
2011	18,541	-
2012	18,981	-
2013-17	114,017	-
2018-22	106,065	-
2023-27	100,870	-
2028-32	2,118	-
\$	<u>413,671</u>	<u>-</u>

The interest associated with the long-term debt noted above is unknown.

Description	Balance			Amount	
	<u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due Within</u>
NMFA Mortgage \$	<u>-</u>	<u>427,511</u>	<u>(13,840)</u>	<u>413,671</u>	<u>17,279</u>

The debt service payments for the NMFA mortgage payable will be liquidated by the general fund.

Description	Balance			Amount	
	<u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due Within</u>
Compensated absences \$	<u>unknown</u>	<u>unknown</u>	<u>unknown</u>	<u>unknown</u>	<u>unknown</u>

Compensated absences, when they are paid, will be liquidated by the general fund. The balance expected to be used in the current period is unknown.

D. Operating Lease Commitments

In May 2005, the District entered into a thirty-six month lease on a Ford pickup truck. The current monthly rental is \$627. Approximately \$627 was expended in the current fiscal year.

In February, 2006, the District entered into a 36 month lease commitment on a Toshiba copier. The current monthly rental is \$241. Approximately \$2,892 was expended in the current fiscal year with a previous copier.

As of June 30, 2007 future minimum lease payments for the truck and copier for the following fiscal years is as follows:

**STATE OF NEW MEXICO
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Truck</u>	<u>Copier</u>
2008 \$	6,273	2,892
2009	-	1,424
\$	<u>6,273</u>	<u>4,316</u>

E. Net Assets Restrictions and Fund Balance Reservations and Designations

The District's net assets as of June 30, 2007 consisted of \$1,141,541 (1,398,284 - \$413,671) invested in capital assets less related debt. The restrictions of net assets and fund balance reservations and designations for the remaining balances are unknown.

F. Cost - Share Program

In June 2001 the District implemented a cost-share program that the District will fund on its own. The purpose of the program is to share the cost of conservation projects with farms, ranches and urban stewardship projects on small acreages and will also provide cost share for other projects within the District and with neighboring soil and water conservation districts. The District will share up to 50% of the cost of a conservation project depending on the type of project and criteria established for farms, ranches and urban stewardship projects. The District will share up to 75% of the cost for brush removal.

IV. Other Information

A. Employee Retirement Benefits

Plan Description. Substantially all of the District's full time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides retirement, disability and survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 13.15% of their gross salary. The District is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the District are established in Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the year ended June 30, 2007, 2006, and 2005 are \$8,848, \$9,651, and \$9,357 respectively, equal to the amount of required contributions each year.

B. Other Employee Benefits

As of June 30, 2007, the District's employees are not offered a deferred compensation plan or any post employment benefits.

C. Risk Management

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors

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and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,000,000 for each wrongful act and \$1,000,000 for the policy aggregated. The District is required to obtain a corporate surety bond on behalf of persons responsible for District assets. The District currently maintains a \$5,000 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.

D. Related Party Transactions

The District Clerk was contracted by the Board for her services provided through her bookkeeping business. On August 7, 2003 the District Clerk was appointed to the Board of Supervisors for the District. Since her appointment to the Board the former District Clerk's daughter has taken the responsibility of the bookkeeping service for the District. During the fiscal year the District paid \$17,247 to the former District Clerk for her services as an accountant.

The District has entered into a cost share agreement with two District Supervisors in which they was reimbursed \$5,899 during the current fiscal year.

Two family members of the Office Manager were paid \$4,990 for contract services during the fiscal year.

A District Supervisor's company was contracted to install a septic tank at the District's office. Amount paid was \$6,439.

E. Other Financing Sources

The District received \$194,436 in funds for capital projects for the year ended June 30, 2007. The agency they received the funds from is unknown. The legislation reference from which the funds were originated is unknown.

**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. David King, Chair and Members of the Board of Supervisors
Edgewood Soil and Water Conservation District
Moriarty, New Mexico
and Mr. Hector Balderas, State Auditor of New Mexico

We were engaged to audit the accompanying financial statements of the governmental activities, the general fund, the aggregate remaining fund information, and the respective budgetary comparison for the general fund of the Edgewood Soil and Water Conservation District (District) as of and for the year ended June 30, 2007 and have issued our report dated May 31, 2010. We did not express an opinion on the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of the District, as of June 30, 2007, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a combination of control deficiencies, that adversely affects entity'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

deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 05-01, 06-01 through 06-08, 06-11 through 06-17 and 06-20 through 06-21, 06-24, 07-01 through 07-04. 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 internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-01 through 06-05, 06-07, 06-08, 06-10 through 06-17, and 06-20 through 06-21, 06-24, and 07-01 through 07-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 05-01, 06-10, 06-11, 06-20, and 06-24.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 Office of the State Auditor, the New Mexico State University – Department of Agriculture, the New Mexico State Legislature, the New Mexico Department of Finance and Administration and applicable grantors and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Hinkle & Landers, P.C.". The signature is written in a cursive, flowing style.

Hinkle and Landers, P.C.
May 31, 2010

**STATE OF NEW MEXICO
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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

Reference FY-Finding #	Findings	Status of Current and Prior Year Findings	Financial Statement Finding	State Auditor Finding
05-01	- No Support For Travel Expense Reimbursement - Modified	Repeated	Yes	Yes
06-01	- Audit Report Of Prior Fiscal Year Not Completed	Repeated	Yes	Yes
06/02	- Board Of Supervisors Not Receiving Financial Information Timely	Repeated	Yes	No
06-03	- Invoice Not Approved Prior To Payments	Repeated	Yes	No
06-04	- Cash Disbursements Missing Supporting Documentation	Repeated	Yes	No
06-05	- Use Of ATM Debit Card	Repeated	Yes	No
06-06	- Disbursements Not Coded To Proper Accounts	Repeated	Yes	No
06-07	- Invoices Posted In Wrong Accounting Period	Repeated	Yes	No
06-08	- Missing Cancelled Checks	Repeated	Yes	No
06-09	- Purchase of Alcohol	Resolved	No	Yes
06-10	- Land Owners Do Not Sign-Off On Final Pay Request In Cost Share Program	Repeated	No	Yes
06-11	- Insurance And PERA Payments Not Made Timely Or In Consistent Amounts	Repeated	Yes	Yes
06-12	- Checks Written To Pay Invoices For Vendors And Suppliers Are Mailed By Person Who Prepares The Check	Repeated	Yes	No
06-13	- QuickBooks Set Up For Wrong Fiscal Period	Repeated	Yes	No
06-14	- Payroll Controls	Repeated	Yes	No
06-15	- Independent Contractor Procurement Weaknesses	Repeated	Yes	No
06-16	- Changing Prior Year Transactions	Repeated	Yes	No

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

Reference FY-Finding #	Findings	Status of Current and Prior Year Findings	Financial Statement Finding	State Auditor Finding
06-17	Cash Disbursements - Lack Of Segregation of Duties/Internal Control Weaknesses	Repeated	Yes	No
06-18	New Mexico Gross Receipts Tax Paid On Exempt Purchases	Repeated	Yes	No
06-19	Payment For Personal Expenses Of Board Member/Management	Resolved	No	Yes
06-20	Certification Of Capital Assets Annual Inventory	Repeated	Yes	Yes
06-21	Actual Expenditures Exceed Budget Expenditures	Repeated	Yes	No
06-22	Property Tax Revenue Deposits	Resolved	Yes	No
06-23	Under Collateralized Bank Accounts	Resolved	Yes	Yes
06-24	Audit Report Not Submitted Timely	Repeated	Yes	Yes
07-01	Fleet Fuel Purchases Not Properly Approved	New	Yes	No
07-02	Payment For Bookkeeping Services Not Properly Approved	New	Yes	No
07-03	Lack Of Approval For Services Of Relatives	New	Yes	No
07-04	Seed Inventory Not Taken	New	Yes	No

05-01—NO SUPPORT FOR TRAVEL EXPENSE REIMBURSEMENT VOUCHER—MODIFIED

Statement of Condition

Out of 94 items tested, 4 of 4 travel expense reimbursement vouchers lacked supporting documentary evidence.

Criteria

Pursuant to the Per Diem and Mileage Act 10-8-5 NMSA 1978, the Department of Finance and Administration has issued "Regulations Governing the Per Diem and Mileage Act," which are part of the New Mexico Administrative Code, at 2.42.2 NMAC. These regulations establish the permissible reimbursement rates. These regulations also require travel vouchers and supporting schedules and documents to conform to the policies and procedures manuals issued by the Financial Control Division of the Department of Finance and Administration. Travel should be properly approved and

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

authorized, supporting receipts submitted and proper rates paid in accordance with approved guidelines.

Cause

The District is not following the guidelines for the Per Diem and Mileage Act.

Effect

The District is not in compliance with Per Diem and Mileage Act. The District may be paying unallowable costs.

Recommendation

The District should make sure they are in compliance with the Per Diem and Mileage Act.

Management Response

Travel expenses are no longer being reimbursed for employees. A travel account has been opened, and all travel will be documented through this account.

06-01—AUDIT REPORT OF PRIOR FISCAL YEAR NOT COMPLETED

Statement of Condition

The annual financial and compliance audit report for Edgewood Soil and Water Conservation District for the fiscal year 2005 was not completed and issued until after the fieldwork for the 2006 audit was completed. Therefore, the audit report issued in 2006 could not rely on the ending balances from 2005 to be rolled over as the beginning balances for the 2006 audit. This issues affected the 2007 and 2008 audits which were conducted simultaneous with the 2006 audit.

Subsequent to the fieldwork being completed for the 2006 audit but before the audit report was issued, the 2005 audit report was issued by the prior auditors (after January 21, 2010) and the current auditors reviewed the report.

Criteria

SAS 84 requires that the current auditors review the prior auditors' workpapers to determine the work completed and the timing of the work completed. These steps, among others, are required in order for the current auditors to make a proper assessment of whether beginning balances can be relied upon and if the current auditor has to modified their planning and audit approach. Without a review of prior year workpapers and audit report, the current auditors cannot rely on beginning balances without additional testing of those beginning balances.

Effect

The 2006 beginning balances could not be relied on and as a result an opinion of the presentation of revenues and expenses shown in the 2006 audit report could not be given. Also, the current auditors could not review any findings that occurred during the 2005

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

audit as they did not have access to them. This issue also affected the 2007 and 2008 audits.

Cause

The prior auditor did not release the 2005 audit report until after the completion of the 2006 through 2008 fieldwork.

Recommendation

We understand the District tried to obtain the 2005 audit report, but was not successful in receiving it. We understand that the audit was released after the conclusion of our fieldwork. We recommend the District take measures to not have this type of situation be repeated.

Management Response

The 2005 Audit Report was received by the Edgewood Soil and Water Conservation District on February 17, 2010.

06-02—BOARD OF SUPERVISORS NOT RECEIVING FINANCIAL INFORMATION TIMELY

Statement of Condition

The District's Board of Supervisors has not been provided balance sheets and statement of activities and other financial information on a timely basis.

Criteria

In order for the governing board to fulfill their fiduciary duty of properly monitor the financial activities of the organization; they need timely, accurate financial information.

Effect

The governing board does not have the ability to fulfill their fiduciary responsibility duties to the organization.

Cause

The financial information is not being completed in a timely manner.

Recommendation

Financial information such as monthly balance sheets, statements of activities as well as aging schedules of payables and receivables should be reviewed by the governing board or some subset of the board in a timely manner.

Management Response

The current fiscal year budget and all transactions will be entered into QuickBooks Accounting, and all reporting will be by QuickBooks reports only. These reports will be distributed to the Board of Supervisors at least 1 week prior to every board meeting.

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

These will consist of: Statement of Net Assets, Statement of Activities, Statement of Revenues & Expenditures Budget & Actual along with a bank reconciliation.

06-03—INVOICE NOT APPROVED PRIOR TO PAYMENTS

Statement of Condition

Out of 94 items tested, 94 invoices were not approved properly prior to payment of the invoice.

Criteria

U.S. generally accepted accounting principles dictate sound controls for significant activities such as procurement. In addition, in most instances state procurement policies require proper authorization by District personnel prior to the commitment of District funds.

Cause

For some purchases reviewed, the District did not have documentation to establish proper approval prior to the commitment and/or disbursement of funds.

Effect

The District is not complying with state procurement rules.

Recommendation

The District should make improvements to the process by which District funds are committed and expended to ensure that required approvals are documented prior to the commitment or expenditure of funds.

Management Response

The Edgewood SWCD Board of Supervisors has addressed this issue, and will ensure that every invoice is signed by two board supervisors prior to payment. We are addressing this issue with our vendors and banks to reflect the District Address as PO Box 1050, Moriarty, NM 87035.

06-04—CASH DISBURSEMENTS MISSING SUPPORTING DOCUMENTATION

Statement of Condition

Out of 94 items tested, 22 did not have any documents to support the purchase.

Criteria

Proper accounting policies and internal control procedures require that supporting information be provided to verify that a purchase is consistent with the policies of the District in accordance with 6-6-3 NMSA 1978.

Cause

The District is not monitoring its purchases to be consistent proper accounting and internal control procedures.

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

Effect

Unauthorized purchases could be made.

Recommendation

We recommend that all cash disbursements are not made until the proper supporting documentation is provided for that purchase.

Management Response

All invoices will be sent to the District Office, located at 2506 Route 66, Box 1050, Moriarty, NM 87035 to the District Manager's attention. Once received, the District Manager will review and verify purchase and sign for payment, and then submit to bookkeeper for payment. Bookkeeper will then attach to invoice for signature, then payment. No payment will be made without supporting documentation. (No handwritten notes – no quotes - must be detailed invoice)

06-05—USE OF ATM DEBIT CARD

Statement of Condition

The District's debit cards provide District personnel with access to the District's bank account funds at a certain limit per day which may be set by the authorized signors of the accounts. The review of the debit cards is performed by a person who has access to a debit card.

Criteria

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 112 and its appendix require strong internal controls. SAS 112 requires the auditor to disclose weaknesses to management and the governing board.

An essential element of a preventative control system is segregation of functions in such a manner that no single individual can perpetrate an error, misappropriation or illegal act without being discovered in a timely manner. Ideally, three general categories of functions should be separated:

- Functions involving custody of assets (e.g. physical control of asset, handling cash, custody of check stock),
- Functions involving recording transactions (e.g. bookkeeping, preparation of bank reconciliations), and
- Functions involving authorization (e.g. sign checks, approve purchases)

Improving internal controls reduces the opportunity for fraud or errors to take place, or to be identified and corrected in a timely manner.

Cause

The segregation of duties and internal controls may not have been reviewed from the perspective outlined under "Criteria" noted above.

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

Effect

Because one person has control or the ability to control the areas outlined in the “Statement of Condition” above, a significant opportunity exists for misappropriation of funds and/or for errors to go undetected because of weak control activities associated with safeguarding cash and monitoring of bank accounts.

Recommendation

We recommend the discontinuance of the debit card or if the District wants to maintain the debit card we recommend the following:

For debit card transactions, we recommend the debit card be linked to a separate bank account with limited amount of funds such as \$5,000 or some other amount that is reasonable. This bank account should be separated from the organization’s main bank account so electronic transfers or other access would not be permissible except by dual authorization. This bank account should be reconciled to the general ledger monthly

Management Response

The ATM Card has not been used since the 2006-2007 fiscal year.

06-06—DISBURSEMENTS NOT CODED TO PROPER ACCOUNTS

Statement of Condition

Out of 112 items tested, 11 disbursements were not coded to the proper account.

Criteria

In order to provide accurate financial information to track the District’s performance during the fiscal year transactions are required to be posted to the proper accounts in accordance with 6-6-3 NMSA 1978. This is also required so that the District can monitor its transactions needed for budgetary purposes.

Cause

Errors are being made in postings to the general ledger.

Effect

The general ledger does not correctly present the District’s financial information.

Recommendation

We recommend that the District takes measures to insure that the District’s transactions are posted to the proper accounts. District personnel should review general ledger postings on a regular basis to ascertain that the transaction has been posted properly.

Management Response

The current fiscal year budget and all transactions will be entered into QuickBooks Accounting, and all reporting will be by QuickBooks reports only.

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

06-07—INVOICES POSTED IN WRONG ACCOUNTING PERIOD

Statement of Condition

The results of our tests showed that 5 of 94 invoices were posted to the wrong accounting period.

Criteria

Statement of Auditing Standards (SAS) 112 was implemented as of December 15, 2006. Some of the key underlying concepts of this standard follow. Also since significant adjustments to the financials were made it calls into question whether the City staff has the qualifications and training to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.

Recording these adjustments is considered a significant process that the client needs to maintain.

In order to provide accurate financial information to track the District's performance during the fiscal year transactions, proper cutoff of transactions is required so that they are recorded in the correct fiscal period. Also, the budget and state codes could be violated by recording transactions in the wrong accounting period. The posting of transactions to the proper accounting period is also required so that the District can monitor its transactions needed for budgetary purposes.

Cause

The District is not maintaining proper cutoff of transactions and making errors in posting to the correct period.

Effect

The District is providing incorrect financial information and may be violating the budget and state code.

Recommendation

We recommend that the District takes measures to insure that the District's transactions are posted to the proper accounts. District personnel should review general ledger postings on a regular basis to ascertain that the transaction has been posted properly.

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FOR THE YEAR ENDED JUNE 30, 2007**

Management Response

The current fiscal year budget and all transactions will be entered into QuickBooks Accounting, and all reporting will be by QuickBooks reports only. This will ensure that all items will be posted into the correct fiscal year.

06-08—MISSING CANCELLED CHECKS.

Statement of Condition

During of testing of disbursement we were unable to find 1 out of 94 cancelled checks from the District's records.

Criteria

Good accounting and internal control policies procedures require that all canceled checks should be accounted for in order that they may be inspected by District personnel to ensure checks have properly issued and cashed.

Cause

The District is not safeguarding its financial records.

Effect

The District is at risk of detecting improper transactions because of the missing checks that cannot be reviewed.

Recommendation

We recommend that the District take steps to ensure that they have a record of all cancelled checks. Procedures should be put in place to safeguard District financial records.

Management Response

All cancelled checks were located.

06-10—LAND OWNERS DO NOT SIGN-OFF ON FINAL PAY REQUEST IN COST SHARE PROGRAM

Statement of Condition

The District has a Cost Share Program that partners the organization with a private landowner on a land improvement project. Per our review of these Cost Share agreements, we have noted there is no sign off by the participating land owners to certify that he or she agrees that the documentation of costs involved in the project are accurate and are properly associated with the project.

Criteria

Good business procedures dictate that the parties involved in an agreement the responsibility each party has for the project and to certify the accuracy of the costs involved.

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

Effect

The District may run the risk that the reimbursement of costs associated with a Cost-Share project may not be accurate.

Cause

The District may not have considered including these type of certifying signatures.

Recommendation

We recommend that the Cost Share agreements be reviewed to improve the accountability and responsibility aspects of the agreement.

Management Response

Management and Technical staff have constructed a final payment signature page for use on every cost-share payment.

06-11—INSURANCE AND PERA PAYMENTS NOT MADE TIMELY OR IN CONSISTENT AMOUNTS

Statement of Condition

Our review of payments for insurance and PERA throughout the year disclosed inconsistent payments in amounts and timing. The payments could not be tied to invoices or statements we reviewed.

Criteria

Routine expenses such as insurance and PERA payments should be paid on a routine basis and the disbursements should contain supporting documentation that can easy to follow to ensure proper amounts were paid.

Effect

The difficulty of following the supporting documentation for these payments calls into question the internal controls for proper review and authorization of disbursements. This issue indicates high risk that the controls over disbursements are not working adequately.

Cause

It appears the controls over disbursements need to be improved.

Recommendation

We recommend the controls over disbursements be improved.

Management Response

Bookkeeper was in the hospital. Although payroll was done the insurance and PERA payments were not paid until later. The inconsistency was caused by trying to catch up. Both are now up to date.

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

06-12—CHECKS WRITTEN TO PAY INVOICES FOR VENDORS AND SUPPLIERS ARE MAILED BY PERSON WHO PREPARES THE CHECK

Statement of Condition

The individual who prepares the checks to pay invoices for vendors and suppliers are mailed by the person who prepares the check.

Criteria

There is opportunity for the person who prepares the checks to have the checks signed by an authorized signer to redirect the checks to a different vendor or different account at the same vendor, thereby embezzling funds.

Effect

The risk for abuse of disbursements is high because of the weakness in controls.

Cause

This issue may not have been previously reviewed.

Recommendation

We recommend the segregation of duties and checks and balances associated with disbursements be reviewed and improved to reduce the risk of malfeasance.

Management Response

This is being addressed and will be changed.

06-13—QUICKBOOKS SET UP FOR WRONG FISCAL PERIOD

Statement of Condition

The District fiscal year is from July 1st through June 30. The District's QuickBooks was set up for January 1 through December 31.

Criteria

Setting up the accounting software's fiscal year correctly is very important since revenue and expense accounts will close out at the end of the year. Setting the fiscal year up incorrectly will cause the revenue and expenditures to close out at the wrong time and therefore distort the accuracy of the accounting.

Effect

QuickBooks presented the financial information incorrectly because the fiscal year was set up incorrectly.

Cause

The fiscal year was set up incorrectly.

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

Recommendation

We recommend the fiscal year be set up correctly.

Management Response

Payroll was set up first and must be on a calendar year.

06-14—PAYROLL CONTROLS

Statement of Condition

During our testing of controls of the payroll function, we determined there is no independent review of payroll to monitor the accuracy of pay rates, proper deductions, timely payroll tax deposits and payroll reporting to the state and federal tax authorities.

Criteria

Payroll is one of the most significant areas of cash disbursements and strong segregating duties or compensating controls to monitor the accuracy of this function is highly important.

Effect

Errors or opportunity for fraud is at high risk in this area because of the weakness in internal controls and segregation of duties.

Cause

Internal controls in this area may not have been considered.

Recommendation

We recommend the internal controls or compensating controls be improved in the payroll function.

Management Response

This has been changed, controls will be improved.

06-15—INDEPENDENT CONTRACTOR PROCUREMENT WEAKNESSES

Statement of Condition

We noted that a board member provided accounting services to the District as an independent contractor but the annual increases paid to her were not authorized.

Criteria

Controls over procurement and authorization of professional services should be documented and implemented. The documentation and implementation of professional services from related parties takes on additional importance to avoid the appearance of a conflict of interest in providing services.

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FOR THE YEAR ENDED JUNE 30, 2007**

Effect

Abuse in the area of procurement and payment to independent contractors is at a higher risk without proper procurement controls and proper authorization.

Cause

Unknown.

Recommendation

We recommend that the District's procurement policies and procedures be reviewed and updated and implemented.

Management Response

2007 - Increase for salaried staff and contract labor including bookkeeper authorized on May 3, 2007 is documented in minutes.

2008 - No rate increase for contract labor authorized. See minutes of the March 2, 2008 and June 5, 2008 board meeting minutes.

No rate increase for administration contractor; Erica Smythe or maintenance contractor; Aaron Smythe; both remained at \$7.83 per hour.

A pay increase for bookkeeper Patricia Ayre from \$1486.80 (June 2008) to \$1561.14 (July 2008) and an increase for Consultant, Gene Kamerzell from the approved \$600 flat rate voted on in March to \$1,000 as of July 30, 2008 was ratified in a budget committee meeting. However, no notes were taken. The board will insure that all meetings have approved minutes in the future.

06-16—CHANGING PRIOR YEAR TRANSACTIONS

Statement of Condition

During our review of the audit trail report in the District's QuickBooks, we noted that there were significant prior period adjustments to cash and retained earnings for up to three years in the past.

Criteria

When changes to an entry are made, the original entry should not be altered without an adequate audit trail. It is strongly recommended that a subsequent correcting entry be made rather than changing the original entry.

Effect

Altering transactions in the general ledger indicates a lack of internal controls and will affect the subsequent year's reconciliation of net assets as balance sheet amounts have been altered any oversight and activity and net assets/fund balance amounts cannot be relied on.

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Cause

It appears to be a lack of training and monitoring of recording transactions properly in the general ledger or possibly malfeasance.

Recommendation

Altering original entries in the general ledger should be prohibited. If changes need to be made to original entries, an audit trail should be created with memos that explain why the changes were made. If these changes affect prior years, the adjustment should include changes to the equity account so the reconciliation of net assets can be transparent rather than covered up.

Management's Response

This process will be changed.

**06-17—CASH DISBURSEMENTS—LACK OF SEGREGATION OF DUTIES
/INTERNAL CONTROL WEAKNESSES**

Statement of Condition

During our interviews about the organization's internal controls and subsequent testing of internal controls of cash disbursements, we determined the following weaknesses:

The Accountant does the following or has the opportunity to:

1. Prepare checks in the accounting software
2. Access to the check stock
3. Print out the checks or manually write
4. Does not prepare a proper reconciliation of the bank accounts
5. No one reviews the monthly bank reconciliations

Criteria

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 112 and its appendix require strong internal controls and these deficiencies and weaknesses are required to be disclosed to management and the governing board.

The combination of control deficiencies and lack of segregation of duties increases the opportunity for material misstatements in the financial statements and/or fraud has collectively resulted in a material weakness for the District and has contributed to the auditor's disclaimer of an opinion.

Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner and for reducing the opportunity for fraud to take place.

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**SCHEDULE OF FINDINGS AND RESPONSES
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Effect

Because one person has control over all of the areas cited in the "Statement of Condition" above, and the lack of monitoring, the opportunity is significantly high to misappropriate funds and/or make errors through cash disbursements that may go undetected because of the weak control activities associated with lack of safeguarding of cash and the lack of monitoring of the bank account.

Cause

Controls have not been put in place.

Recommendation

The District must implement segregation of duties and other controls to reduce the risk of fraud and material error in the financial statements.

Exhibit 1

Bank Statement And Reconciliation Review Checklist

To be completed by A Responsible Official Who Does Not Handle Cash

ACCOUNT:

- Bank Account 1
 Bank Account 2
 Other

1. *Compare the bank balance shown on the reconciliation report and make sure it matches the amount on the bank statement.*

Bank balance on reconciliation report _____

Ending balance on bank statement _____

Do they match? yes no

2. *Review the deposit transactions that passed through the bank shown on the bank reconciliation report. Look at the frequency of deposits. There should be a consistency of the frequency of deposits and the gap between deposit dates should not be more than 5 business days, maximum.*

Is there more than 5 days between deposits? yes no

If so, what is the reason?

3. *Review the disbursement transactions shown on the bank reconciliation report. Look at the check number sequence. The check numbers should be in sequence on the whole. Review the images of the cancelled checks from the bank statement. Determine if the vendors and amounts appear reasonable. Look at signatures to see if they look authentic.*

Are the check numbers mostly in sequence? yes no

Are all the check images included? yes no

Are there any new vendors? yes no

Are the amounts paid to the vendors reasonable? yes no

Do the signatures seem authentic? yes no

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4. *Review any deposits that have been recorded in QuickBooks but have not passed through the bank. Deposits outstanding should not be outstanding more than 5 business days, maximum. Any deposits that appear older than 5 days should be investigated.*

Are there any deposits in transit older than 5 days? yes no

If so, what is the reason?

5. *Review disbursements that have been recorded in QuickBooks but have not passed through the bank. Determine if the vendors and amounts appear reasonable. If disbursements are older than 3 months they should be investigated. Once disbursements are older than 6 months, they should be researched by the accountant/bookkeeper to determine why they are still outstanding. If there are outstanding disbursements to certain vendors such as tax authorities or other organizations that need timely payment, these should not be outstanding more than 30 days.*

Review checks that have not cleared the bank.

Are any more than 30 days old? yes no

If yes, are the vendors and amounts reasonable? yes no

6. *The balance per the register on the reconciliation report should match the balance on the Balance Sheet for the cash account. If it does not that indicates that changes have been made to the cash account after the bank reconciliation was made. If they do not match, the difference should be investigated.*

Ending Balance on reconciliation report _____

Operating account balance on Balance Sheet _____

Do they match? yes no

If not, why not

7. *Once the report is printed out, it should be signed and dated by the reconciler and then it should be signed and dated by the reviewer as well. This signing and dating indicate that responsibility has been taken for the monitoring and safeguarding cash*

Title and Signature of Review _____

Date _____

Issues to be aware of:

Is it possible that a disbursement is not for organizational related purposes?

Is the Vendor approved by the organization?

If there are question about items that do not make sense consider contacting your Independent Auditor or the Office of the State Auditor

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Management Response

The official mailing address for the Edgewood SWCD is PO Box 1050. Box 1049 will no longer be listed to receive mail for the District. All bills will go directly to the District Manager for verification of purchase and signature. An invoice will then be attached to the approved bills and given to bookkeeper. Bookkeeper will write checks, and have 2 board members sign voucher and checks. Copies of checks and bills will be made and placed with original voucher, and bills mailed. Original vouchers with attached documentation will be given back to District Manager for filing at District Office.

06-18—NEW MEXICO GROSS RECEIPTS TAX PAID ON EXEMPT PURCHASES

Statement of Condition

The District paid New Mexico gross receipts taxes on transactions that are exempt from gross receipts tax.

Criteria

Governmental agencies are exempt from NMGRG on the purchase of tangible personal property in accordance with 7-9-54 NMSA 1978.

Cause

Personnel who made the purchases were not aware of the exemption or did not review the purchase documentation to ascertain that NMGRG was not applied to the transaction.

Effect

The District overpaid for certain purchases.

Recommendation

We recommend that the District inform all employees of the policy regarding the exemption from NMGRG and also review all purchases to ensure that NMGRG is not included in the purchase.

Management Response

District Manager will submit required forms to all vendors to establish tax exempt status.

06-20—CERTIFICATION OF CAPITAL ASSETS ANNUAL INVENTORY

Statement of Condition

The District has not conducted an annual physical inventory of its capital assets of \$5,000 or more as of June 30, 2007.

Criteria

NMAC 2.20.1.16 Annual Inventory requires that all state agencies, municipalities, counties and every political subdivision of the state must conduct an annual physical audit of its capital assets with a historical cost of \$5,000 or more. Also, the results of the

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physical inventory shall be recorded in a written inventory report, certified as to the correctness and signed by the governing authority of the agency.

Effect

The inventory of the capital assets may not be correct, and monitoring of capital assets is not being kept up and therefore, capital assets may go missing by theft or misplacement.

Cause

The District did not complete the inventory for the fiscal year ended June 30, 2006.

Recommendation

We recommend that the District's physical inventory of capital assets contain a certification that the inventory is correct and that it be signed by a governing authority of the District. Also, the District should compare the certified list with the list maintained in the accounting department and differences should be researched and resolved.

Management Response

Staff is constructing a list of assets which will be kept in a locked fire box at the District Office, located at 2506 Route 66. Bookkeeper will report the assets within QuickBooks monthly as required by GASB.

06-21—POOR BUDGET CONTROLS

Statement of Condition

Actual expenditures exceeded budgeted expenditures within a category in the General Fund for the following amounts:

Bonding	\$ (5,076)
Equipment/Project Materials	(100,984)
Meetings	(4,614)
Office	(16,028)
Payroll expenses	(20,260)
Telephone	(7,569)
Travel	(758,874)
Miscellaneous	(3,803)
Debt service	
Principal payments - debt service	(13,840)
Interest payments - debt service	<u>(9,518)</u>

Although the legal level of the budgetary control is at the total fund level, the negative balances by accounts indicates that budgets are not being properly monitored and adjusted throughout the year.

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Criteria

The monitoring and adjusting the budget throughout the year is one of the most important controls over expenditures that an organization has.

Effect

Expenditures of the organization can be improperly posted or budget overruns can occur.

Cause

It appears to be lack of monitoring of the District for possible budget overruns.

Recommendation

Management should review the financial statements on a timely basis, ask questions about variances that are out of line of expectations, and make adjustments to budget line items when appropriate.

Management Response

Bookkeeper will submit full financial reports to the Board of Supervisors monthly prior to board meeting with a budget report showing year to date expenditures to ensure that expenditures do not exceed budget.

06-24—AUDIT REPORT NOT SUBMITTED TIMELY

Statement of Condition

The District audit report for the year ended June 30, 2007 was not completed by the required due date of December 1, 2006 per the state auditor rule nor by December 30, 2008 per our signed contract. The audit report was mailed and postmarked with the date June 05, 2010 to the Office of the State Auditor.

Criteria

Audit reports rejected and not resubmitted before the due date are considered to be late submissions under 2.2.2.9.E of the State Audit Rule.

Effect

Information was not timely audited and reviewed by management and the board and has caused problems with the District's ongoing need for audited financials to make informed management decisions and to submit audited financials for the purpose of pursuing grants.

Cause

The District was unable to obtain its prior audit timely and did not have its books and records ready for their audit.

Recommendation

The District should ensure its books and records are ready to be audited.

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Management Response

Unable to provide report due to lack of timely report provided to ESWCD by 2005 by the State Auditor.

State Auditor Response

The District promised to provide to the Office of the State Auditor (OSA) the responses to the audit findings and the signed management representation letter for the fiscal year 2005 audit within two weeks after the exit conference. Had the aforementioned items been received by OSA at the promised time, the audit report would have been delivered in May 2009, thus allowing the successor auditors the opportunity to evaluate the July 1, 2005 opening balances and apply the procedures required by generally accepted auditing standards.

07-01—FLEET FUEL PURCHASES NOT PROPERLY APPROVED

Statement of Condition

All four transactions tested for fuel purchases totaling \$1,096.60 showed that the payments were made from a statement that did not identify the employees that made the purchases, the business purpose of the purchases and lacked proper approval. Receipts did not accompany the statement.

Criteria

U.S. generally accepted accounting principles dictate sound controls for significant activities such as procurement. In addition, in most instances state procurement policies require proper authorization by District personnel prior to the commitment of District funds in accordance with 6-6-3 NMSA 1978.

Cause

The District is not reviewing its purchases for proper approval.

Effect

The District may be paying for purchases that are not obligations of the District.

Recommendation

We recommend that the District review all purchases for correct details and proper approval of the purchases.

Management Response

Every transaction for fuel purchase currently is being tracked by Fleet Fuel. Each employee has their own pin or each vehicle, and mileage reading for specific vehicle must be entered into the system prior to purchasing fuel.

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07-02—PAYMENT FOR BOOKKEEPING SERVICES NOT PROPERLY APPROVED

Statement of Condition

A voucher for bookkeeping services included an increase over the prior year and was signed only by the service provider.

Criteria

U.S. generally accepted accounting principles dictate sound controls for significant activities such as procurement. In addition, in most instances state procurement policies require proper authorization by District personnel prior to the commitment of District funds in accordance with 6-6-3 NMSA 1978.

Cause

The District is not reviewing its purchases for proper approval in accordance with State procurement requirements.

Effect

The District may be paying for services without proper authorization in violation of the State procurement code.

Recommendation

We recommend that the District review all purchases for correct details and proper approval of the purchases.

Management Response

All bills are currently being reviewed by the District Manager, approved for payment, then attached to a purchase voucher prior to payment.

07-03—LACK OF APPROVAL FOR SERVICES OF RELATIVES

Statement of Condition

The children of the manager were hired to perform contractual “day labor” services without proper approval on the purchase voucher and the checks were endorsed by the manager.

Criteria

U.S. generally accepted accounting principles dictate sound controls for significant activities such as procurement. In addition, in most instances state procurement policies require proper authorization by District personnel prior to the commitment of District funds in accordance with 6-6-3 NMSA 1978.

Cause

The District is not reviewing its purchases for proper approval in accordance with State procurement requirements.

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Effect

The District may be paying for services without proper authorization in violation of the State procurement code.

Recommendation

We recommend that the District review all payments for proper approval of the purchases.

Management Response

At the time that manager signed checks, children were under age, and did not have a checking account. They are now over the age of 18.

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07-04—SEED INVENTORY NOT TAKEN

Statement of Condition

The auditors were unable to obtain the seed inventory for the year ended.

Criteria

Annual inventory of seeds that are sold should have an inventory that is maintained and accounted for.

Effect

The inventory may not be properly monitored or safeguarded.

Cause

The District did not complete the seed inventory for the fiscal year ended June 30.

Recommendation

We recommend that the District's conduct an inventory on a periodic basis to properly monitor and safeguard the seed inventory.

Management Response

Inventory will be taken on a periodic basis.

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An exit conference was held in a closed session on February 18, 2010, at the District's offices in Edgewood, New Mexico. In attendance were the following:

Representing Edgewood

Mr. David King	Chairperson
Ms. Patricia Ayre	Supervisor
Ms. Jo Basset	Supervisor
Mr. Leo Smith	Supervisor
Mr. Lewis Fisher	Supervisor
Roy Todd	NMDA Representative
Brad Podoll NRCS	District Conservationist
Ms. Brenda Smythe	Office Manager
Ms. Kelly Smith	District Technician

Representing Hinkle & Landers, PC

Mr. Farley Vener, CPA, CFE	Independent Auditor
Mr. Roger Nagel, CPA	Independent Auditor

FINANCIAL STATEMENTS

The financial statements of the District as of June 30, 2007, were substantially prepared by Hinkle & Landers, PC, however, the financial statements are the responsibility of management.