



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS  
June 30, 2011**

**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
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FOR THE YEAR ENDED JUNE 30, 2011**

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

**OFFICIAL ROSTER  
AS OF JUNE 30, 2011**

<b>Board of Supervisors</b>	<b>Position</b>	<b>Elected/Appointed</b>
David King	Chairperson	Appointed
Lewis Fisher	Vice-Chairperson	Elected
Bill King	Secretary/Treasurer	Elected
Mark Anaya	Member	Elected
Leo Smith	Member	Elected
Juan Sanchez	Member	Elected
Patricia Ayre	Member	Appointed

  

<b>District Personnel</b>	<b>Title</b>
Brenda Smythe	District Manager
Kelly Smith	District 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 have audited the accompanying financial statements of the governmental activities, the general fund and the budgetary comparison of the general fund of the Edgewood Soil and Water Conservation District (District) as of and for the year ended June 30, 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly we express no such opinion. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Edgewood Soil and Water Conservation District, as of June 30, 2011, and the respective changes in financial position, where applicable, thereof 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.

The District has omitted the Management's Discussion and Analysis (MD&A) which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Governmental Auditing Standards*, we have issued a report dated January 27, 2014 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 & Landers, P.C.*

Hinkle + Landers, P.C.  
Albuquerque, NM  
January 27, 2014

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**As of June 30, 2011**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
<b>Current</b>	
Cash and investments	\$ 217,819
Taxes receivable	33,798
Inventory	<u>11,658</u>
Total current assets	263,275
 <b>Non current</b>	
Capital assets, not being depreciated	606,511
Capital assets being depreciated, net	<u>648,107</u>
Capital assets, net of accumulated depreciation	<u>1,254,618</u>
Total assets	<u><u>\$ 1,517,893</u></u>
 <b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 5,586
Accrued payroll	2,798
Compensated absences	9,090
Note payable - current portion	<u>19,480</u>
<b>Total current liabilities</b>	36,954
 <b>Long-term liabilities</b>	
Note payable	323,010
Compensated absences - long term portion	<u>-</u>
<b>Total long-term liabilities</b>	<u>323,010</u>
<b>Total liabilities</b>	<u><u>359,964</u></u>
 <b>Net position</b>	
Net investment in capital assets	912,128
Unrestricted	<u>245,801</u>
<b>Total net position</b>	<u>1,157,929</u>
<b>Total liabilities and net position</b>	<u><u>\$ 1,517,893</u></u>

See accompanying independent auditors' report and notes to financial statements.

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2011**

<b>Program Expenses</b>	<u><b>Governmental Activities</b></u>
Conservation:	
Building expense	\$ 55,337
Conservation	246,211
Contract services	13,859
Dues and subscriptions	3,455
Insurance	5,977
Meetings	4,280
Miscellaneous	3,596
Office expense	28,766
Payroll and benefits	96,373
Professional fees	7,371
Interest	8,727
Travel and fuel	12,344
Depreciation	<u>40,655</u>
Total program expenses	<u>526,951</u>
 <b>Program Revenues</b>	
Conservation sale items	13,409
Other	<u>7,200</u>
Total program revenues	<u>20,609</u>
Net program (expense) revenue and changes in net position	<u>(506,342)</u>
 <b>General Revenues</b>	
Property taxes	358,201
Appropriations	8,492
Water trust board	10,418
Grants	167,038
Interest	<u>45</u>
Total general revenues	<u>544,194</u>
Change in net position	37,852
Net position at beginning of year	<u>1,120,077</u>
<b>Net position at end of year</b>	<u><u>\$ 1,157,929</u></u>

See accompanying independent auditors' report and notes to financial statements.

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**As of June 30, 2011**

		General Fund
<b>Assets</b>		
Cash and investments	\$	217,819
Property taxes receivable		33,798
Inventory		11,658
Total assets	\$	263,275
 <b>Liabilities and Fund Balance</b>		
Liabilities		
Accounts payable	\$	5,586
Accrued payroll		2,798
Total liabilities		8,384
Deferred inflows of resources		8,991
Fund balance:		
Nonspendable - inventory		11,658
Unassigned		234,242
Total fund balance		245,900
Total liabilities and fund balance	\$	263,275
 <b>Reconciliation of the Governmental Funds Balance to Statement of Net Position</b>		
Total fund balance governmental funds	\$	245,900
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds		1,254,618
Other current liabilities (notes payable) are not available to pay for current period		(19,480)
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		(323,010)
Compensated absences		(9,090)
Some revenue is deferred in the funds but accrued as revenue in the government-wide statements and added to net position.		8,991
Net position of governmental activities	\$	1,157,929

See accompanying independent auditors' report and notes to financial statements.



**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, 2011**

	General Fund
<b>Revenues</b>	
Property taxes	\$ 349,209
Conservation sale items	13,409
Appropriations	8,492
Water trust board	10,418
State Land Office rent	7,200
Grants	167,038
Interest	45
Total revenues	555,811
<b>Expenditures</b>	
<b>Current: Conservation:</b>	
Building expense	55,336
Conservation	246,211
Contract services	13,859
Dues and subscriptions	3,455
Insurance	5,977
Meetings	4,280
Miscellaneous	3,596
Office expense	28,765
Payroll and benefits	95,869
Travel and fuel	12,344
Professional services	7,371
<b>Non-current</b>	
<b>Debt Service</b>	
Principal payments - debt service	19,054
Interest payments - debt service	8,727
<b>Capital outlay</b>	6,500
Total expenditures	511,344
Excess (deficiency) of revenues over expenditures before other financing sources	44,467
<b>Other financing sources - None</b>	
Net change in fund balance	44,467
Fund balance beginning of year	201,433
Fund balance end of year	\$ 245,900
<b>Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities:</b>	
Net change in fund balance - Governmental Funds	\$ 44,467
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	(40,654)
Capital outlay included as additions in capital assets	6,500
Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The (increase) decrease is compensated absences is included in the statement of activities.	
	(504)
Principal payments on notes payable included in governmental funds but not in the statement of activities	
	19,054
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenue in the governmental funds: deferred inflows.	
	8,991
Rounding	(2)
Change in net position - Statement of Activities	\$ 37,852

See accompanying independent auditors' report and notes to financial statements.

**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, 2011**

General Fund					
		Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>					
Property taxes	\$	292,471	292,471	358,201	65,730
Conservation sale items		45,000	45,000	13,409	(31,591)
Appropriations		27,782	27,782	8,492	(19,290)
Water trust board		5,000	5,000	10,418	5,418
State Land Office rent		7,200	7,200	7,200	-
Grants		10,000	10,000	167,038	157,038
Interest		247	247	45	(202)
Total revenues		387,700	387,700	564,803	177,103
Other financing sources - capital outlay		-	-	-	-
Total revenues	\$	387,700	387,700	564,803	177,103
<b>Expenditures</b>					
<b>Current</b>					
Building expense	\$	54,000	54,000	55,336	(1,336)
Conservation		114,400	114,400	246,211	(131,811)
Contract services		15,000	15,000	13,859	1,141
Dues and subscriptions		3,000	3,000	3,455	(455)
Insurance		5,000	5,000	5,977	(977)
Meetings		7,000	7,000	4,280	2,720
Miscellaneous		5,000	5,000	3,596	1,404
Office expense		16,740	16,740	28,766	(12,026)
Payroll and benefits		103,115	103,115	95,869	7,246
Professional services		10,000	10,000	7,371	2,629
Travel and fuel		16,410	16,410	5,844	10,566
<b>Capital outlay</b>		-	-	6,500	(6,500)
<b>Debt service</b>					
Principal payments - debt service		19,054	19,054	19,054	-
Interest payments - debt service		8,728	8,728	8,727	1
Total expenditures	\$	377,447	377,447	504,845	(127,399)
Excess (deficiency) of revenues over (under) expenditures				\$ 59,958	
Reconciliation of Non-GAAP Budget to GAAP					
To adjust applicable revenue accruals				(8,991)	
To adjust applicable expenditures and accruals				(6,500)	
Change in fund balance (GAAP Basis)				\$ 44,467	

See accompanying independent auditors' report and notes to financial statements.

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**NATURE OF BUSINESS AND 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 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 District participates in a Memorandum of Understanding for Watershed Health and Restoration in the Estancia Underground Water Basin. The Edgewood, East Torrance, Claunch-Pinto and Ciudad Soil and Water Conservation Districts work separately and collectively on restoration conservation practice implementation in the basin area and are responsible for actions, activities and implementation of each project in their respective district in accordance with the rules of the fiscal administering entity and funding source. There is no financial arrangement and modifications to this agreement can be made at any time by mutual consent of the participants. Any district can withdraw from this MOU at any time after Supervisory Board action and written notification to the remaining districts.

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.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basic Financial Statements – GASB Statement No. 34**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted Standard-setting body for establishing governmental Accounting and financial reporting principles. The GASB periodically updates its codification of the

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existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the District's accounting policies are described below.

General Revenues (General Fund appropriation, transfers-in from other state agencies, Federal aid, etc.) normally cover the net cost (by function). Historically, the previous model did not summarize or present net cost by function or activity.

This government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous accounting model.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the District's actual experience conforms to the budget of fiscal plan. Since the governmental fund statements are presented on a different focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements in to the governmental column on the government-wide presentation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with specific function or segment. *Program revenues* derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry as a whole and include operating grants and contracts that are restricted to meeting the operational necessities of a particular compliance grant requirement. The District allocates its indirect costs to each of its programs based on an indirect cost allocation plan.

**2. Basis of Presentation**

The financial transactions of the District are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures and other financing sources or uses.

Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by the type and reported by generic classification the accompanying financial statements.

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, deferred outflows, liabilities, deferred inflows, revenues or expenditures. The general fund is always considered a major fund. The District has only one fund, which is the General Fund.

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**GASB Statement 54**

In February 2009 the GSB issued Statement No.54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. GASB 54 also clarifies governmental fund type definitions.

The fund balance amounts for governmental funds included in this report have been reclassified in accordance with GASB 54. As a result, in the governmental fund financial statements, fund balances previously reported as reserved and unreserved are now reported according to a hierarchy of classifications established in GASB 54, which are based on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in that fund can be spent.

GASB 54 fund balance classifications include:

- Nonspendable** – amounts cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact;
- Restricted** – amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation;
- Committed** – amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature and the Executive branches;
- Assigned** – constrained by the government's intent to be used for specific purposes;
- Unassigned** – the residual classification for remaining amounts after all other classifications have been considered.

**Net Position**

The government-wide financial statements utilize a net position presentation. Net Position is categorized as: *Investment in capital assets* (net of related debt), *restricted* and *unrestricted*. *Investment in Capital Assets* (net of related debt) is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position reflects the portion of net position that has third party limitations on their use. *Unrestricted (Deficit) Net Position* represents net position of the District that is not restricted for any project or other purpose.

The government-wide statement of net position reports no restricted net position, except what is related to an MOU. If there were other restricted net position amounts they should be reviewed for consideration of being restricted by enabling legislation. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the

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judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has no deferred outflows of resources during fiscal year 2011 on the government wide or fund financials.

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applied to a future period and so will not be recognized until then. The District has the following deferred inflows of resources during fiscal year 2011 on the fund financials: \$8,991 related to a deferred revenue that was not available to the District in 60 days after year end.

**3. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The statement of net position and the statement of activities are prepared 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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. By definition, the resources of fiduciary funds are not available to support District programs. Therefore, fiduciary funds are excluded from the government-wide financial statements.

All governmental funds are accounted for using the *modified accrual basis* of accounting and the *current financial resources measurement focus*. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which is considered to be within sixty days of year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, which was also adopted as of July 1, 2001 by the District, the provider should recognize liabilities and expenses and the recipient should recognize

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receivables and revenues when the applicable eligibility requirements including time requirements, are met, resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

**4. Governmental Funds**

**General Fund**—The general operating fund of the District is used to account for all financial resources.

**5. Inventory**

Inventory consisting primarily of materials and supplies held for consumption on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time the individual inventory items are used.

**6. 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 three 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.

**7. 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.

**8. Accounts Payable**

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

**9. 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

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**10. 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. Accrued vacation at June 30, 2011 was \$9,090.

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.

**11. 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.



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**FOR THE YEAR ENDED JUNE 30, 2011**

**B. Cash and Investments**

As of June 30, 2011, the District's total carrying amount of deposits was \$217,819. The bank balances were fully insured by federal depository insurance throughout the year. The locations and amounts deposited at each of the financial institutions at June 30, 2011 are as follows:

	<b>Wells Fargo Bank</b>	<b>First Community Bank</b>	<b>Total</b>
Demand deposits per bank	\$ 188,306	4,616	192,922
Less: FDIC insurance	(250,000)	(250,000)	(500,000)
Uninsured balance	\$ (61,694)	(245,384)	(307,078)
Certificates of deposit	24,897	-	24,897
Less: FDIC insurance	(24,897)	-	(24,897)
Uninsured balance	-	-	-
Total uninsured balances	\$ -	-	-
Total uninsured balance	\$ -	-	-
Security requirement (6-10-17 NMSA)	50%	50%	50%
Total security required	-	-	-
Total security pledged at market value	-	-	-
Collateral security excess (deficiency)	\$ -	-	-

**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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. Capital Assets**

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

Description	Balance 2010	Additions	Deletions	Balance 2011
<b>Capital assets not being depreciated</b>				
Land	\$ 606,511	-	-	606,511
Total capital assets not being depreciated	\$ 606,511	-	-	606,511
<b>Capital assets being depreciated</b>				
Building	\$ 674,813	-	-	674,813
Equipment	114,838	-	-	114,838
Vehicles	30,756	6,500	-	37,256
Total capital assets being depreciated	820,407	6,500	-	826,907
Total capital assets	\$ 1,426,918	6,500	-	1,433,418
<b>Less accumulated depreciation for:</b>				
Building	\$ (64,668)	(20,626)	-	(85,294)
Equipment	(53,998)	(11,065)	-	(65,063)
Vehicles	(19,479)	(8,964)	-	(28,443)
Total accumulated depreciation	(138,145)	(40,655)	-	(178,800)
Capital assets, net	\$ 1,288,773	(34,155)	-	1,254,618

Depreciation for the year ended June 30, 2011 was \$40,655.

**D. Long-Term Debt**

Long-term debt activity for the year ended June 30, 2011 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, 2011 was \$342,490

Minimum principal payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2012 \$	19,480	8,302
2013	19,868	7,916
2014	20,278	7,506
2015	20,714	7,072
2016	21,171	6,616
2017-21	113,551	25,403
2022-26	127,428	10,163
\$	<u>342,490</u>	<u>72,978</u>

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The interest expense for the year ended June 30, 2011 was \$8,727.

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

Description	Balance			Balance 2011	Amount Due Within One Year
	2010	Additions	Deletions		
NMFA Mortgage	\$ 361,544	-	(19,054)	342,490	19,480

Description	Balance			Balance 2011	Due Within One Year
	2010	Additions	Deletions		
Compensated absences	\$ 8,586	4,353	3,849	9,090	9,090

Compensated absences, when they are paid, will be liquidated by the general fund.

**E. Operating Lease Commitments**

On September 22, 2008, the District entered into a 36 month lease commitment for a Sharp copier. The monthly rental was \$237. During the year, the District entered into a 60 month lease commitment on a Toshiba copier. The current monthly rental is \$363. Approximately \$3,974 was expended in the current fiscal year for both copiers.

As of June 30, 2008 future minimum lease payments for the truck and copier for the following fiscal years is as follows:

2012	\$	4,356
2013		4,356
2014		4,356
2015		4,356
2016		<u>4,356</u>
	\$	<u>21,780</u>

**F. Net Position**

The District's net position as of June 30, 2011 consisted of \$912,128 (\$1,157,929 – \$245,801) net investment in capital assets.

**G. 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. 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

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removal.

**H. 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 7.00% of their gross salary. The District is required to contribute 7.00% of the gross 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, 2011, 2010, and 2009 are \$4,568, \$5,029 and \$4,833 respectively, equal to the amount of required contributions each year.

**I. Other Employee Benefits**

As of June 30, 2011, the District's employees are not offered a deferred compensation plan or any post employment benefits.

**J. 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 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 past several years and is not a defendant in any lawsuit.

**K. Related Party Transactions**

Two family members of the District Manager were paid \$6,368 for office and maintenance contract services during the fiscal year. No amounts were due to or from related parties at year-end.

**L. Other Financing Sources**

The District has no other financing sources for the year ended June 30, 2011.

**M. Budget Noncompliance**

The General Fund overspent its budget by \$127,399 which violated state budget controls.



**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 have audited the financial statements of the governmental activities, the general fund, and the budgetary comparison of the general fund of the Edgewood Soil and Water Conservation District (District) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 27, 2014. 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**

Management of the District is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 06-14, 06-16, 06-17.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by

Those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 11-01.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 06-24, 07-01, 09-01.

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.



Hinkle + Landers, P.C.  
Albuquerque, NM  
January 27, 2014

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

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

FY-Finding #	Findings	Status of Current and Prior Year Findings	State Auditor Finding	Material Weakness	Significant Deficiency	Compliance
05-01	Lack of Support for Travel Expense Reimbursements	<b>Resolved</b>	-	-	-	-
06/02	Board of Supervisors Not Receiving Financial Information Timely	<b>Resolved</b>	-	-	-	-
06-04	Cash Disbursements Missing Supporting Documentation	<b>Resolved</b>	-	-	-	-
06-10	Land Owners Do Not Sign-Off on Final Pay Request in Cost Share Program	<b>Resolved</b>	-	-	-	-
06-11	Insurance And PERA Payments Not Made Timely or in Consistent Amounts	<b>Resolved</b>	-	-	-	-
06-12	Checks Written to Pay Invoices for Vendors and Suppliers are Mailed By Person Who Prepares the Check	<b>Resolved</b>	-	-	-	-
06-14	Payroll Controls	<b>Repeated</b>	No	Yes	No	No
06-15	Independent Contractor Procurement Weaknesses	<b>Resolved</b>	-	-	-	-
06-16	Changing Prior Year Transactions	<b>Repeated</b>	No	Yes	No	No
06-17	Cash Disbursements - Lack Of Segregation of Duties/Internal Control Weaknesses	<b>Repeated</b>	No	Yes	No	No
06-18	New Mexico Gross Receipts Tax Paid on Exempt Purchases	<b>Resolved</b>	-	-	-	-
06-20	Certification of Capital Assest Annual Inventory	<b>Resolved</b>	-	-	-	-
06-21	Budget Controls	<b>Repeated</b>	Yes	No	No	No
06-24	Audit Report Not Submitted Timely	<b>Repeated</b>	Yes	No	No	Yes
07-01	Fleet Fuel Purchases Not Properly Approved	<b>Repeated</b>	Yes	No	No	Yes
07-03	Lack of Approval for Services of Relatives	<b>Resolved</b>	-	-	-	-
07-04	Seed Inventory Not Taken	<b>Resolved</b>	-	-	-	-
08-02	Under Collateralized Bank Accounts	<b>Resolved</b>	-	-	-	-

**STATE OF NEW MEXICO  
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**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

09-01	Lack of Support and Timeliness of Deposits	<b>Repeated</b>	Yes	No	No	Yes
09-02	Lack of Controls over Financial Reporting	<b>Resolved</b>	-	-	-	-
09-03	Social Security Coverage	<b>Resolved</b>	-	-	-	-
11-01	Old Outstanding checks	<b>Current</b>	No	No	Yes	No

**06-14—PAYROLL CONTROLS – Material Weakness**

**Statement of Condition**

During our testing of controls of the payroll function for the District’s two employees, 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 segregation of 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.

**06-16—CHANGING PRIOR YEAR TRANSACTIONS – Material Weakness**

**Statement of Condition**

During our review of the audit trail report in the District’s QuickBooks, we noted that there were prior period entries to cash and retained earnings for grants.

**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



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**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

relied on.

**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 – Material Weakness**

**Statement of Condition**

During our interviews about the organization's internal controls and subsequent testing of internal controls of 64 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 bank accounts (resolved September 2013)
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.

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  
FOR THE YEAR ENDED JUNE 30, 2011**

**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.

**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.

**06-21—BUDGET CONTROLS - State Compliance**

**Statement of Condition**

Actual expenditures exceeded budget expenditures in the General Fund by \$127,399.

**Criteria**

Chapter 6 of the New Mexico Statutes Annotated (NMSA) 1978 requires the Local Government Division (LGD), Financial Management Bureau of New Mexico Department of Finance and Administration to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies. Sections 6-6-6 through 6-6-11 NMSA 1978 Compilation prohibits local governments from making expenditures in excess of the approved budget. The LGD interprets Section 6-6-6 to apply to a fund’s total budget; if the fund’s total budget is overspent, the fund is not in compliance with Section 6-6-6.

**Effect**

The District is in violation of budget controls established for soil and water conservation districts of the State of New Mexico.

**Cause**

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

**Recommendation**

We recommend that the District improve controls to prevent the over-expenditure of fund resources.

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**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

**Management Response**

Monthly financial reports will be submitted to the Board of Supervisors prior to the 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 – State Compliance**

**Statement of Condition**

The District audit reports for the years ended June 30, 2009, 2010, and 2011 were not completed by the required due date of December 1 per the NM State Audit Rule nor by December 1, 2012 per our signed contract.

**Criteria**

In accordance with NMAC 2.2.2.9(A)(1) the District audit reports are due December 1 of the year being audited. NMAC 2.2.2.9(A)(2) requires that an audit finding must be included as an instance of noncompliance with Subsection A of 2.2.2.9 NMAC.

Also, NMAC 2.2.2.8(G)(6)(c) requires that the District deliver a fully completed and signed IPA Recommendation Form and audit contract by May 15 of the year being audited.

**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 audits.

**Recommendation**

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

**Management Response**

Delays in issuance of the prior year audits and turnover in the District led to the late audits. The District is prepared to catch up 2009-2011, 2012, and 2013 audits this year.

**07-01—FLEET FUEL PURCHASES NOT PROPERLY APPROVED – State Compliance**

**Statement of Condition**

Two transactions tested out of 11 fuel purchases totaling \$1,246.75 showed that the payments were made from a statement that did not identify 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

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**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

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.

**09-01 – LACK OF SUPPORT AND TIMELINESS OF DEPOSITS – State Compliance**

**Statement of Condition**

Out of 15 deposits tested, 2 totaling \$13,247.54 lacked supporting documentation. Additionally, we noted that the District did not make 7 deposits by the close of the next business day.

**Criteria**

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

Per the State of New Mexico Manual of Model Accounting Practices, Section FIN2.1-8 and Sections 6-10-2, 3, 13, NMSA 1978, agencies must deposit all monies received with the STO or with the authorized banking institution by the close of the next business day after receipt.

**Effect**

Untimely deposits leave the District vulnerable to misappropriations of funds.

**Cause**

The District was unaware of this requirement.

**Recommendation**

We recommended that the District implement controls to ensure monies are deposited into a banking institution by the close of the next business day.

**Management Response**

Checks are collected for seed, tree and book sales. Deposits are made when collected. If during a large tree and seed sale, deposits are held until the end of the sale to ensure all

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**SCHEDULE OF FINDINGS AND RESPONSES  
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stock is picked up. In cases where stock may not be picked up for different reasons, the checks are returned uncashed to the landowner.

**11-01 – Old Outstanding Checks – Significant Deficiency**

**Statement of Condition**

The District had eight checks outstanding more than one year totaling \$7,792.57 listed in the June 30, 2011 bank reconciliation.

**Criteria**

Good internal controls over cash require that checks outstanding more than one year should be investigated and removed from the accounting records.

**Cause**

The District is not reviewing its bank reconciliations for these old outstanding checks.

**Effect**

The District is not maintaining good internal controls over cash increasing the risk of fraud, errors and misappropriation.

**Recommendation**

We recommend that a responsible official who does not handle cash or cash equivalents review and document their review initialing and dating the reconciliations after they are completed each month. We further recommend that a responsible official who does not handle cash or cash equivalents open and review the bank and investment statements for any irregularities. The auditors have provided a review checklist to complete this recommendation. We also recommend that the bank balance is reconciled to the book balance to ensure that all transactions are accounted for.

**Management Response**

Management will review old outstanding checks and remove them from the reconciliation and have the bank reconciliations reviewed monthly by a responsible official independent of cash.

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**EXIT CONFERENCE  
For the Year Ended June 30, 2011**

An exit conference was held in a closed session on January 27, 2014, at the District's offices in Edgewood, New Mexico. In attendance were the following:

Representing ESWCD

Mr. Bill King	Secretary/Treasurer
Mr. Mark Anaya	Member
Mr. Art Swenka	Member
Ms. Brenda Smythe	District Manager

Representing Hinkle + Landers, P.C.

Mr. Farley Vener, CPA, CFE	Independent Auditor
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**FINANCIAL STATEMENTS**

The financial statements of the District as of June 30, 2011, were substantially prepared by Hinkle + Landers, P.C.; however, the financial statements are the responsibility of management.

