



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**



**STATE OF NEW MEXICO  
EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT  
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For the Year Ended June 30, 2014**

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

**OFFICIAL ROSTER  
As of June 30, 2014**

<b><u>Board of Supervisors</u></b>	<b><u>Position</u></b>	<b><u>Elected/Appointed</u></b>
David King	Chairperson	Elected
Lewis Fisher	Vice-Chairperson	Elected
Bill King	Secretary/Treasurer	Elected
Mark Anaya	Member	Elected
Bill Williams	Member	Elected
Art Swenka	Member	Appointed
Juan Sanchez	Member	Appointed

  

<b><u>District Personnel</u></b>	<b><u>Title</u></b>
Brenda Smythe	District Manager
Kelly Smith	District Technician



**INDEPENDENT AUDITOR’S 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

**Report on the Financial Statements**

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, 2014 and the related notes to the financial statements which collectively comprise the District’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes design, implementation, and maintenance of internal control relevant to preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District, as of June 30, 2014, and the respective changes in financial position,

and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

Management has omitted the Management and Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Governmental Auditing Standards*, we have issued a report dated **November 25, 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, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.  
Albuquerque, NM  
November 25, 2014

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**As of June 30, 2014**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
<b>Current</b>	
Cash and investments	\$ 240,234
Taxes receivable	75,603
Inventory	<u>11,998</u>
Total current assets	327,835
<b>Non current</b>	
Capital assets, not being depreciated	606,511
Capital assets being depreciated, net	<u>579,619</u>
Capital assets, net of accumulated depreciation	<u>1,186,130</u>
Total assets	<u><u>\$ 1,513,965</u></u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 8,357
Accrued payroll	4,218
Compensated absences	8,311
Note payable - current portion	<u>20,714</u>
<b>Total current liabilities</b>	41,600
<b>Long-term liabilities</b>	
Note payable	262,354
Compensated absences - long term portion	<u>2,078</u>
<b>Total long-term liabilities</b>	<u>264,432</u>
<b>Total liabilities</b>	<u><u>306,032</u></u>
<b>Net position</b>	
Net investment in capital assets	903,062
Restricted	8,798
Unrestricted	<u>296,073</u>
<b>Total net position</b>	<u>1,207,933</u>
<b>Total liabilities and net position</b>	<u><u>\$ 1,513,965</u></u>

See accompanying independent auditor's 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, 2014**

<b>Program Expenses</b>	<b>Governmental Activities</b>
Conservation:	
Building expense	\$ 40,615
Conservation	157,007
Contract services	32,174
Dues and subscriptions	1,975
Insurance	18,869
Meetings	19,215
Miscellaneous	476
Office expense	26,491
Payroll and benefits	107,077
Professional fees	37,029
Interest	7,578
Travel and fuel	17,756
Depreciation	29,085
Total program expenses	495,347
<b>Program Revenues</b>	
Conservation sale items	15,889
Other	16,493
Total program revenues	32,382
Net program (expense) revenue and changes in net position	(462,965)
<b>General Revenues</b>	
Property taxes	385,089
Appropriations	11,874
Grants	31,002
Interest	17
Total general revenues	427,982
Change in net position	(34,983)
Net position at beginning of year	1,242,916
<b>Net position at end of year</b>	\$ 1,207,933

See accompanying independent auditor's report and notes to financial statements.



**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**As of June 30, 2014**

	General Fund
<b>Assets</b>	
Cash and investments	\$ 240,234
Property taxes receivable	75,603
Inventory	11,998
Total assets	\$ 327,835
 <b>Liabilities and Fund Balance</b>	
Liabilities	
Accounts payable	\$ 8,358
Accrued payroll	4,218
Total liabilities	12,576
Deferred inflows of resources	64,899
Fund balance:	
Nonspendable - inventory	11,998
Restricted	8,798
Unassigned	229,564
Total fund balance	250,360
Total liabilities and fund balance	\$ 327,835

**Reconciliation of the Governmental Funds Balance to Statement of Net Position**

Total fund balance governmental funds	\$ 250,360
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,186,130
Other current liabilities (notes payable) are not current period expenses but will be paid in a future period.	(20,714)
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	(262,354)
Compensated absences	(10,389)
Some revenue is deferred in the funds but accrued as revenue in the government-wide statements and added to net position.	64,899
Rounding	1
Net position of governmental activities	\$ 1,207,933

See accompanying independent auditor's 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, 2014**

	General Fund
<b>Revenues</b>	
Property taxes	\$ 375,875
Conservation sale items	15,889
Appropriations	11,874
Rent	7,200
Grants	31,002
Other	9,293
Interest	17
Total revenues	451,150
<b>Expenditures</b>	
<b>Current: Conservation:</b>	
Building expense	40,617
Conservation	157,007
Contract services	32,174
Dues and subscriptions	1,975
Insurance	18,869
Meetings	19,215
Miscellaneous	476
Office expense	26,491
Payroll and benefits	103,881
Travel and fuel	17,756
Professional services	37,029
<b>Non-current</b>	
<b>Debt Service</b>	
Principal payments - debt service	20,206
Interest payments - debt service	7,578
<b>Capital outlay</b>	
Total expenditures	483,274
Excess (deficiency) of revenues over expenditures before other financing sources	(32,124)
<b>Other financing sources - None</b>	
Net change in fund balance	(32,124)
Fund balance beginning of year	282,484
Fund balance end of year	\$ 250,360

**Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities:**

Net change in fund balance - Governmental Funds	\$	(32,124)
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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		(29,085)
Capital outlay included as additions in capital assets		-

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.		(3,196)
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Principal payments on notes payable included in governmental funds but not in the statement of activities

		20,206
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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.

		9,215
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Rounding

		1
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Change in net position - Statement of Activities

	\$	(34,983)
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See accompanying independent auditor's 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, 2014**

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 390,000	390,000	376,795	(13,205)
Grants	100,000	100,000	31,002	(68,998)
Other	-	-	495	495
Conservation sale items	30,000	30,000	15,889	(14,111)
Rent	7,200	7,200	7,200	-
Water trust board	19,550	19,550	-	(19,550)
Appropriations	13,000	13,000	11,874	(1,126)
Interest	300	300	17	(283)
Total revenues	560,050	560,050	443,272	(116,778)
<b>Expenditures</b>				
<b>Current</b>				
Conservation	\$ 220,000	220,000	157,347	62,653
Payroll and benefits	105,000	105,000	102,970	2,030
Building expense	47,500	47,500	40,617	6,883
Office expense	28,000	28,000	26,491	1,509
Miscellaneous	768	768	476	292
Meetings	18,000	18,000	19,215	(1,215)
Contract services	32,000	32,000	32,174	(174)
Travel and fuel	28,000	28,000	17,756	10,244
Insurance	18,000	18,000	18,869	(869)
Dues and subscriptions	3,000	3,000	1,975	1,025
Professional services	32,000	32,000	45,724	(13,724)
<b>Capital outlay</b>	-	-	-	-
<b>Debt service</b>				
Principal payments - debt service	20,204	20,204	20,206	(2)
Interest payments - debt service	7,578	7,578	7,578	-
Total expenditures	\$ 560,050	560,050	491,398	68,652
Excess (deficiency) of revenues over (under) expenditures			\$ (48,126)	
 Reconciliation of Non-GAAP Budget to GAAP				
To adjust applicable revenue accruals			7,878	
To adjust applicable expenditures accruals			8,124	
Change in fund balance (GAAP Basis)			\$ (32,124)	

See accompanying independent auditor's 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, 2014**

**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 existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental

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**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
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**For The Year Ended June 30, 2014**

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, deferred inflows and deferred outflows, 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.

### **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

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2014**

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 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.

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2014**

**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.

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 2014 on the fund financials: \$64,899 related to 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 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.

**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2014**

**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 Tarrant. The taxes are collected by the respective county treasurer and are paid to the District monthly; all are deemed collectible 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
Land	Perpetual

**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, 2014 was \$10,389.

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.



**STATE OF NEW MEXICO**  
**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2014**

**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.

**B. Cash and Investments**

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed State investment requirements as of June 30, 2014.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial statements.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred per cent of the asked price on United States treasury bills of the same maturity on the day of deposits.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States Government, or by their departments or agencies, and which are either direct obligations of the State or United States or are backed by the full faith and credit of those governments.

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, authority or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Noninterest bearing transaction accounts, time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate.

No security is required for the deposit of public money that is insured by the Federal Deposit

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**EDGEWOOD SOIL AND WATER CONSERVATION DISTRICT**  
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Insurance Corporation (FDIC) or the National Credit Union Shares Insurance Fund (NCUSIF) according to Section 6-10-16 NMSA 1978.

**Deposits**

*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. The District has no formal policy on managing custodial credit risk other than following the state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

State law limits investments to United States Government obligations, commercial paper with A-1 or better ratings, corporate bonds with a BBB+ or better ratings, asset backed obligations with an AAA or better rating, or repurchase agreements.

Additionally the District has an account restricted for debt service which is managed by the New Mexico Finance Authority (NMFA), and is on deposit with the State Treasurer’s office in the name of NMFA for the benefit of the district.

State of New Mexico Statues require collateral for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution, the amount of which is considered uninsured and the collateral is held by pledging bank’s trust department in the Bank’s name. The schedule listed below will meet the State of New Mexico, Office of the State Auditor’s requirements in reporting the insured portion of the deposits.

As of June 30, 2014, the District's total carrying amount of deposits was \$240,234. 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, 2014 are as follow:

		<b>Wells Fargo</b>	<b>US</b>		<b>Book</b>
		<b>Bank</b>	<b>Bank</b>	<b>NMFA</b>	<b>Balance</b>
Demand deposits per bank	\$	236,724	1,684	-	206,494
Debt service reserves		-	-	8,798	8,798
Total amount on deposit		236,724	1,684	8,798	215,292
Less: FDIC insurance		(236,724)	(1,684)	N/A	
Uninsured balance	\$	-	-	-	
Total uninsured balance	\$	-	-	-	
Security requirement (6-10-17 NMSA)		50%	50%	N/A	
Total security required		-	-	-	
Total security pledged at market value		-	-	-	
Collateral security excess (deficiency)	\$	-	-	-	

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributable to the magnitude of the District’s investment in a single issuer. The District has no formal policy limiting the amount of investments or deposits at any single institution or with any single issuer, but is not susceptible to concentration credit risk.

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**Investments**

As of June 30, 2014, the District has the following investments:

		<b>Western</b>	
	<b>Wells Fargo</b>	<b>Commerce</b>	<b>Book</b>
	<b>Bank</b>	<b>Bank</b>	<b>Balance</b>
Certificates of deposit	\$ 5,000	19,942	<u>24,942</u>
Total amount on deposit	5,000	19,942	
Less: FDIC insurance	<u>(5,000)</u>	<u>(19,942)</u>	
Uninsured balance	\$ -	-	
Total uninsured balance	\$ -	-	
Security requirement (6-10-17 NMSA)	<u>50%</u>	<u>50%</u>	
Total security required	-	-	
Total security pledged at market value	<u>-</u>	<u>-</u>	
Collateral security excess (deficiency)	\$ -	-	

**Wells Fargo Bank**

State of New Mexico Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one-half of the amount of deposit with the institution, the amount of which is considered uninsured and the collateral is held by the pledging bank's trust department in the Bank's name. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

		<b>Wells Fargo</b>
		<b>Bank</b>
Demand deposits per bank	\$ 236,724	
Certificates of deposit	<u>5,000</u>	
Total amount on deposit	241,724	
Less: FDIC insurance	<u>(241,724)</u>	
Uninsured balance	\$ -	
Total uninsured balance	\$ -	
Security requirement (6-10-17 NMSA)	<u>50%</u>	
Total security required	-	
Total security pledged at market value	<u>-</u>	
Collateral security excess (deficiency)	\$ -	

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*Credit quality risk:* This is the risk related to the credit worthiness of the institution. The District's investments in Wells Fargo Bank are unrated.

*Custodial credit risk:* This is the risk that in the event of the failure of the bank, the District will not be able to recover the value of its investment. The District is exposed to custodial credit risk as follows:

		<b>Wells Fargo Bank</b>
Demand deposits per bank	\$	236,724
Certificates of deposit		5,000
Total amount on deposit		241,724
Less: FDIC insurance		(241,724)
Uninsured balance		-
Total security pledged at market value		-
Total uninsured and uncollateralized	\$	-

**Western Commerce Bank**

State of New Mexico Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one-half of the amount of deposit with the institution, the amount of which is considered uninsured and the collateral is held by the pledging bank's trust department in the Bank's name. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

		<b>Western Commerce Bank</b>
Demand deposits per bank	\$	-
Certificates of deposit		19,942
Total amount on deposit		19,942
Less: FDIC insurance		(19,942)
Uninsured balance	\$	-
Total uninsured balance	\$	-
Security requirement (6-10-17 NMSA)		50%
Total security required		-
Total security pledged at market value		-
Collateral security excess (deficiency)	\$	-

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*Credit quality risk:* This is the risk related to the credit worthiness of the institution. The District's investments in Wells Fargo Bank are unrated.

*Custodial credit risk:* This is the risk that in the event of the failure of the bank, the District will not be able to recover the value of its investment. The District is exposed to custodial credit risk as follows:

		<b>Western Commerce Bank</b>		
Demand deposits per bank	\$	-		
Certificates of deposit		19,942		
Total amount on deposit		19,942		
Less: FDIC insurance		(19,942)		
Uninsured balance		-		
Total security pledged at market value		-		
Total uninsured and uncollateralized	\$	-		

*Interest rate risk:* This is the risk that changes in market interest will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities for the District's Wells Fargo and Western Commerce Bank accounts are one year or less.

*Concentration of credit risk:* This is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal investment policy that limits investments in a single issuer. The District is exposed to concentration credit risk as noted in custodial credit risk.

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**C. Capital Assets**

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

<b>Description</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 2014</b>
<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	\$ 683,762	-	-	683,762
Equipment	119,669	-	-	119,669
Vehicles	49,947	-	-	49,947
Total capital assets being depreciated	853,378	-	-	853,378
Total capital assets	\$ 1,459,889	-	-	1,459,889
<b>Less accumulated depreciation for:</b>				
Building	\$ (123,933)	(17,658)	-	(141,591)
Equipment	(82,309)	(7,589)	-	(89,898)
Vehicles	(38,432)	(3,838)	-	(42,270)
Total accumulated depreciation	(244,674)	(29,085)	-	(273,759)
Capital assets, net	\$ 1,215,215	(29,085)	-	1,186,130

Depreciation for the year ended June 30, 2014 was \$29,085.

**D. Long-Term Debt**

Long-term debt activity for the year ended June 30, 2014 was as follows:

<b>Description</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 2014</b>	<b>Amount Due Within One Year</b>
NMFA Mortgage	\$ 303,274	-	(20,206)	283,068	20,714
Compensated Absences	7,193	6,568	(3,372)	10,389	8,311
	\$ 310,467	6,568	(23,578)	293,457	29,025

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, 2014 was \$283,068.

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Minimum principal payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015 \$	20,714	6,373	27,087
2016	21,171	5,969	27,140
2017	21,636	5,543	27,179
2018	22,156	5,094	27,250
2019	22,685	4,621	27,306
2020-2024	122,286	15,144	137,430
2025-2026	52,420	1,822	54,242
\$	<u>283,068</u>	<u>44,566</u>	<u>327,634</u>

The interest expense for the year ended June 30, 2014 was \$7,578.

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

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

**E. Operating Lease Commitments**

During 2011, the District entered into a 60 month lease commitment on a Toshiba copier. The current monthly rental is \$363. Approximately \$4,040 was expended in the current fiscal year.

As of June 30, 2014 future minimum lease payments for copier for the following fiscal years is as follows:

2015 \$	4,356
2016	4,356
2017	-
2018	-
2019	-
\$	<u>8,712</u>

**F. Net Position**

The District's net position as of June 30, 2014 consisted of \$903,062 (\$1,207,933– \$304,871) net investment in capital assets and \$8,798 restricted for debt service.

**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 removal.

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**For The Year Ended June 30, 2014**

**H. Pension Plan – Public Employees Retirement Association**

**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. The report is also available on PERA's website at <http://www.pera.state.nm.us>.

**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, 2014, 2013, and 2012 are \$6,552, \$5,788 and \$5,462 respectively, which equal to the amount of required contributions each fiscal year.

**I. Other Employee Benefits**

As of June 30, 2014, 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. Other Financing Sources**

The District has no other financing sources for the year ended June 30, 2014.

**L. Implementation of New GASB Standards**

In June 2012, The Governmental Accounting Standards Board (GASB) approved Statement No. 67, Financial Reporting for Pension Plans, which applies to pension plans that administer pension benefits. The Public Employees Retirement Association (PERA) administers the pension for the City. Statement No. 68, Accounting and Financial Reporting for Pensions, which applies to governments that provide pension benefits to their employees.

**GASB 67 Financial Reporting for Pension Plans**

Requires changes to presentation in financial statements, notes to the financial statements, and required supplementary information in PERA's financial report. GASB 67 will be implemented in FY 2014 by PERA.



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**GASB 68 Accounting and Financial Reporting for Pensions**

Applies the changes implemented at the pension plan level (PERA) under GASB 67 and segregates and divides, or allocates, the pension liability to each participating employer (state, municipal, judicial, magistrate, volunteer firefighters, and legislative). The statement implementation date is FY 2015.

**PERA's Current Implementation and Timeline**

Implementation GASB 67

GASB 67 will require the net pension liability to be disclosed in PERA's FY 2014 financial report. The total "collective" pension liability will then be allocated to the participant employers for FY 2015 financial reporting.

PERA plans to separately issue an audited report, referred to as the "Schedule of Employer Allocations" that will allocate the total pension liability *by employer*. The report will also include other required information that will be used by each employer participant for disclosure in each employer's FY 2015 financial reports.

*Anticipated process and timeline is as follows:*

1. The "Schedule of Employer Allocations" is provided to PERA's external auditor in January of 2015.
2. PERA's external auditor's will audit the "Schedule of Employer Allocations" in February of 2015 and submit that report to the State Auditor's Office for review in March of 2015. *(See also 2.2.2.10 NMAC Sections CC and DD)*
3. The "Schedule of Employer Allocations" will be provided to employers in April of 2015, allowing enough time for incorporation into financial reports as required by GASB 68, after the June 30, 2015 year end.

In FY 15, the District will report a net pension liability based on its proportion of the collective net pension liability of all of the governments participating.



**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the governmental activities, the general fund and the budgetary comparison of the general fund, of Edgewood Soil and Water Conservation District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and the budgetary comparison, presented as supplemental information, and have issued our report thereon dated November 25, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion of the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a 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 and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2012-005.

A significant deficiency is a deficiency, or a 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. 2012-002 and 2014-001.

#### **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 item 2014-001.

#### **District's Responses to Findings**

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 responses and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, P.C.  
Albuquerque, NM  
November 25, 2014

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

**SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2014**

Reference #	Finding	Status of Prior Year Findings	Type of Finding*
<b>PRIOR YEAR</b>			
06-14	Payroll Controls	Resolved	
06-24	Audit Report Not Submitted Timely	Resolved	
07-01	Controls over Travel and Per Diem Disbursements	Resolved	
2012-002	Employment of Contractors	Repeated	B
2012-003	Bank Reconciliation Sign-Offs	Resolved	
2012-004	Undercollateralization of Bank Accounts	Resolved	
2012-005	Lack of Controls Over Financial Reporting	Repeated	A
2013-001	IPA Recommendation Form Not Submitted Timely	Resolved	
<b>CURRENT YEAR</b>			
2014-001	Internal Control: Reconciling/Monitoring PERA	Current	B, G

**\* Legend for Type of Finding**

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance to Federal Awards
- G. Compliance with State Audit Rule

**2012-002 – Employment of Contractors**

**Type of Finding: Significant Deficiency in Internal Control Over Financial Reporting**

**Statement of Condition**

During the testing of transactions, the auditors reviewed several disbursements made out to independent contractors. Upon inquiry with management, it appears that the entity may be improperly classifying these workers as contractors, rather than employees.

**Criteria**

According to the IRS, the following 11 factors are taken into consideration to determine a worker's status as an employee:

- The worker has regular hours
- The worker works on-site
- The worker is salaried
- The worker receives benefits from the employer

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

**SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2014**

- The worker only works the company
- The worker and the employer has a long-term work relationship
- The company supervises the worker
- The employer provides training to the worker
- The employer sets the worker's hours
- The employer sets the worker's hourly rate
- The employer provides tools and/or equipment to the worker

The following nine factors identified by the IRS determine a worker's status as an independent contractor:

- The worker works off-site
- The worker has irregular work hours
- The worker invests in tools and/or equipment for use in job
- The worker has the ability to report a profit or loss from the job
- The worker pays for their own expenses
- The worker and employer has a contract in place for their services
- The worker can hire others to complete the task on their behalf
- The work relationship relates only to the contract work
- The worker performs similar projects for other companies

**Cause**

Edgewood Soil & Water Conservation District has employed all of its workers, other than its two staff members, as independent contractors.

**Effect**

There is an increased risk that the IRS could impose a tax penalty for noncompliance with these standards and the entity could accumulate a greater payroll tax liability if selected for an IRS audit.

**Recommendation**

We recommend Edgewood Soil & Water Conservation District to review the guidelines regarding classifying a worker as a contractor or an employee and adjust its policies accordingly.

**Management Response**

The Budget and Personnel Committee reviewed the budget and need for another permanent employee. Both Committees have agreed to change this contractor to an employee. The Board will vote for approval during the December 2014 Board meeting.

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

**SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2014**

**2012-005 – Lack of Controls Over Financial Reporting**

**Type of Finding: Material Weakness in Internal Control Over Financial Reporting**

**Statement of Condition**

According to Statement of Auditing Standards (SAS) 115, identification by the auditor of a material misstatement of the financial statements under audit, in circumstances that indicate that the misstatement would not have been detected by the entity's internal control is considered a material weakness. During the year ended June 30, 2014 the audit resulted in adjustments to receivables \$75,603, inventory \$11,998, accounts payable and accrued expenses \$12,574 and depreciation expense \$29,085.

**Criteria**

Some of the key underlying concepts of SAS 115 include:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs auditor independence;
- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and
- A system of internal control over the financial reporting does not stop at the general ledger – it includes controls over the presentation of the financial statements.

Recording adjustments is considered a significant process of internal control and should be performed by District staff. The District's system of internal control should include controls over financial statement preparation, including footnote disclosure.

**Effect**

An internal control weakness in maintaining the general ledger exists because material adjustments were identified by the auditor and not by District staff. As a result, periodic financial statements reviewed by management and the governing body may be materially inaccurate. Insufficient controls over the preparation of financial statements and related disclosures limits the District's ability to prevent or detect a misstatement in its financial statements.

**Cause**

Internal control procedures were not effective in identifying and correcting material errors. The District does not have the personnel or time to prepare the financial statements and related disclosures.

**Recommendation**

We recommend that the District make adjustments to their general ledger in a timely manner including receivables, inventory, payables, accrued liabilities and depreciation expense.

**Management Response**

All adjustments will be completed from now on by our bookkeeping over-site (Zlotnick & Sandoval).

**2014-001 – Internal Control: Reconciling/Monitoring PERA Payments**

**Type of Finding: B,G**

**Statement of Condition**

The District is not reconciling payroll to remittances to Public Employees Retirement Act (PERA) in a

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

**SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2014**

timely manner. The District is not ensuring 100 per cent of the payroll is being reported to PERA.

**Criteria**

For Public Employees Retirement Act (Sections 10-11-1 to 10-11-141 NMSA 1978) members are required to report 100 per cent of its payroll according to state audit compliance requirement Subsection G (7) of NMAC 2.2.10.

**Effect**

Failure to ensure the proper amount is remitted to PERA could lead to potential overpayment or under payment which in turn could lead to late penalty fees and improper allocations to participants.

**Cause**

The District was unaware of this control procedure

**Recommendation**

The District should ensure PERA payments are reconciled each pay period to ensure the payment remitted is correct and the payroll reported to PERA is accurate.

**Management's Response**

The reconciliations on-line at PERA were done late by staff, due to notifications not being delivered to correct contact person. All reconciliations are complete and up-to-date as of November 2014. Monthly review of on-line reconciliations will be done to ensure payments are correct and payroll reported to PERA is accurate.

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

**EXIT CONFERENCE  
For the Year Ended June 30, 2014**

An exit conference was held in a closed session on November 25, 2014, at the District's offices in Moriarty, New Mexico. In attendance were the following:

Representing ESWCD

Lewis Fisher  
Bill King  
Brenda Smythe

Vice-chair  
Secretary/Treasurer  
District Manager

Representing Hinkle + Landers, P.C.

Farley Vener, CPA, CFE

Independent Auditor

**FINANCIAL STATEMENTS**

The financial statements of the District as of June 30, 2014, were substantially prepared by Hinkle + Landers, P.C.; however, the financial statements are the responsibility of the District's management.