

# PORCH & ASSOCIATES LLC

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

STATE OF NEW MEXICO  
VALENCIA SOIL AND WATER CONSERVATION DISTRICT

Financial Statements, Supplementary Information  
and  
Independent Auditors' Reports

June 30, 2007

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

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

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

**JUNE 30, 2007**

**List of Principle Officials**

**Board of Supervisors**

Charlie Sanchez	Chairperson
Marcel Reynolds	Vice-Chairperson
Jim Davis	Treasurer
Jose Ramon Baca	Supervisor
Carl Hullinger	Supervisor
Joseph Moya	Supervisor
Richard Becker	Supervisor

**District Personnel**

Madeline Miller	Administrative Assistant
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**Independent Auditors' Report**

Mr. Hector H. Balderas, State Auditor and  
Mr. Charlie Sanchez Jr, Chair  
and Members of the Board of Supervisors  
Valencia Soil and Water Conservation District

We have audited the accompanying financial statements of the governmental activities, the general fund and the respective budgetary comparison of the Valencia Soil and Water Conservation District (District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District as of June 30, 2007, and the respective changes in financial position, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Mr. Hector H. Balderas, State Auditor and  
Mr. Charlie Sanchez Jr, Chair  
and Members of the Board of Supervisors  
Valencia Soil and Water Conservation District

In accordance with Government Auditing Standards, we have also issued a report dated June 1, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements and the respective budgetary comparison that collectively comprise the District's basic financial statements. The supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Porch & Associates LLC*

Albuquerque, New Mexico  
June 1, 2009

**STATE OF NEW MEXICO  
VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2007**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 168,936
Investments	422,397
Prepaid expenses	2,374
Capital assets, net	<u>607,278</u>
<b>Total assets</b>	<u>1,200,985</u>
<b>LIABILITIES</b>	
Accrued payroll and related liabilities	1,741
Compensated absences	1,035
Unearned revenue - current	8,131
Unearned revenue - noncurrent	<u>28,919</u>
<b>Total liabilities</b>	<u>39,826</u>
<b>NET ASSETS</b>	
Invested in capital assets	607,278
Restricted for endowment	15,010
Unrestricted	<u>538,871</u>
<b>Total net assets</b>	<u><u>\$ 1,161,159</u></u>

*The accompanying notes are an integral part of these financial statements.*

**STATE OF NEW MEXICO  
VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007**

	<u>Governmental Activities</u>
<b>Program Expenses</b>	
Conservation	
Salaries and related taxes	\$ 26,916
Office expenses and supplies	2,505
Telephone	965
Postage	194
Special meetings and conference	250
Annual meeting	764
Dues	50
Insurance	3,053
Travel reimbursements and stipends	5,288
Miscellaneous	1,050
In-kind rent expense	3,000
Dan Goodman award scholarships	2,100
CFRP-USFS project costs	11,306
Whitfield utilities and maintenance	6,405
Rio Abajo repair and maintenance	2,188
Abo/Priest Canyon project costs	2,040
Los Lunas Bridge Bosque restoration project	23,034
SWCC riparian restoration project	16,880
<b>Total program expenses</b>	<u>107,988</u>
<b>Program Revenues</b>	
Federal operating grants and contracts	1,325
State operating grants and contracts	79,297
County operating grants and contracts	10,000
Village operating grants and contracts	25,000
Charges for services - aerial spray and revegetation	3,062
Charges for services - rental income	29,055
<b>Total program revenues</b>	<u>147,739</u>
<b>Net program revenue</b>	<u>39,751</u>
<b>General Revenues</b>	
NMDA Allotment	22,631
In-kind revenue	7,600
Donations	10,000
Interest	22,479
<b>Total general revenues</b>	<u>62,710</u>
<b>Change in net assets</b>	102,461
Total net assets, beginning of year	1,058,698
<b>Total net assets, end of year</b>	<u>\$ 1,161,159</u>

*The accompanying notes are an integral part of these financial statements.*



**STATE OF NEW MEXICO  
 VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
 BALANCE SHEET - GOVENMENTAL FUNDS  
 June 30, 2007**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 168,936
Investments	<u>422,397</u>
<b>Total assets</b>	<u><u>\$ 591,333</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
Accrued payroll and related liabilities	\$ 1,741
Deferred revenue - current	8,131
Deferred revenue - non-current	<u>28,919</u>
<b>Total liabilities</b>	<u>38,791</u>
<b>FUND BALANCE</b>	
Reserved for endowment	15,010
Unreserved, undesignated	<u>537,532</u>
<b>Total fund balance</b>	<u>552,542</u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 591,333</u></u>

*The accompanying notes are an integral part of these financial statements.*

**STATE OF NEW MEXICO  
 VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 June 30, 2007**

Amounts reported for governmental activities in the statement of net assets are different from the way they are reported in the Balance Sheet - Governmental Funds as follows:

<b>Fund balance - balance sheet</b>	\$ 552,542
Accrued compensated absences not payable from current revenues.	(1,035)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	607,278
Prepaid items are expensed in governmental funds, but not in the entity wide financial statements.	<u>2,374</u>
<b>Net assets - Statement of Net Assets</b>	<u><u>\$ 1,161,159</u></u>

*The accompanying notes are an integral part of these financial statements.*

**STATE OF NEW MEXICO  
 VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - GOVERNMENTAL FUNDS  
 Year Ended June 30, 2007**

	<u>General Fund</u>
<b>REVENUES</b>	
Valencia County allotments	\$ 10,000
NMDA allotment	22,631
Interest	22,479
NMDGF - Whitfield improvements	52,700
NMDGF - Whitfield building grant	7,697
NMDA - SWCC riparian restoration grant	18,900
USFWS BIG grant - Bosque improvement	1,325
Los Lunas Bridge project	25,000
BNSF Abo Priest Grant	3,062
Rio Abajo rental income	29,055
In-kind revenue - office occupancy	7,600
<b>Total revenues</b>	<u>200,449</u>
<b>EXPENDITURES</b>	
Current	
Salaries and related taxes	25,881
Office expenses and supplies	2,505
Telephone	965
Postage	194
Special meetings and conference	250
Annual meeting	764
Dues	50
Insurance	5,427
Travel reimbursements and stipends	5,288
Miscellaneous	1,050
In-kind rent expense	3,000
Dan Goodman award scholarships	2,100
CFRP-USFS project costs	11,306
Whitfield utilities and maintenance	6,405
Rio Abajo repair and maintenance	2,188
Abo/Priest Canyon project costs	2,041
Los Lunas Bridge Bosque restoration project	23,034
SWCC riparian restoration project	16,880
Whitfield Building start-up costs	8,250
<b>Total expenditures</b>	<u>117,578</u>
Net change in fund balance	82,871
Fund balance, beginning of year	469,671
<b>Fund balance, end of year</b>	<u>\$ 552,542</u>

*The accompanying notes are an integral part of these financial statements.*

**STATE OF NEW MEXICO  
 VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGED IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 June 30, 2007**

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

<b>Net changes in fund balances - governmental funds</b>	<b>\$ 82,871</b>
Governmental funds report capital outlay as expenditures. Capital assets are not reported as expenses on the Statement of Net Assets. This is the amount of capital additions for the year.	18,251
Accrued compensated absences are expensed under the accrual method, and not the modified accrual method.	(1,035)
Prepaid items are expensed in governmental funds, but not in the entity wide financial statements.	<u>2,374</u>
<b>Change in net assets - governmental activities</b>	<b><u><u>\$ 102,461</u></u></b>

*The accompanying notes are an integral part of these financial statements.*

STATE OF NEW MEXICO  
 VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
 STATEMENT OF REVENUES AND EXPENSES -  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Valencia County allotments	\$ 10,000	10,000	10,000	-
NMDA allotment	10,000	22,900	22,631	(269)
Interest	19,000	19,000	22,479	3,479
NMDGF - Whitfield improvements	4,543	4,543	52,700	48,157
NMDGF - Whitfield building grant	330,000	330,000	7,697	(322,303)
NMGF Whitfield construction	10,000	10,000	-	(10,000)
NMDA - SWCC riparian restoration grant	3,200	3,200	44,650	41,450
Los Chavez drain maintenance	104	104	-	(104)
Miscellaneous grant income	225,000	225,000	-	(225,000)
Rio Abajo operations and maintenance	10,000	10,000	-	(10,000)
USFWS BIG grant - Bosque improvement	-	-	1,325	1,325
Los Lunas Bridge project	-	-	25,000	25,000
BNSF Abo Priest Grant	100,000	100,000	12,123	(87,877)
Rio Abajo rental income	16,820	16,820	29,055	12,235
<b>Total revenues</b>	<b>738,667</b>	<b>751,567</b>	<b>227,660</b>	<b>(523,907)</b>
<b>EXPENDITURES</b>				
Salaries and related taxes	26,400	26,400	26,707	(307)
Office expenses and supplies	620	1,920	2,505	(585)
Telephone	1,000	1,000	965	35
Postage	300	300	194	106
Special meetings and conference	-	525	250	275
Annual meeting	500	750	764	(14)
Legal	500	7,500	-	7,500
Dues	825	825	824	1
Insurance	4,100	4,100	5,427	(1,327)
Travel reimbursements and stipends	1,400	4,000	5,288	(1,288)
Miscellaneous	275	500	1,050	(550)
Dan Goodman award scholarships	1,000	1,000	2,100	(1,100)
Conservation education	-	1,000	-	1,000
CFRP-USFS project costs	-	-	11,306	(11,306)
Whitfield utilities and maintenance	2,600	2,600	6,405	(3,805)
Special project expenses	697,647	697,647	-	697,647
Rio Abajo repair and maintenance	-	-	2,188	(2,188)
Abo/Priest Canyon project costs	-	-	2,041	(2,041)
Los Lunas Bridge Bosque restoration project	-	-	18,434	(18,434)
SWCC riparian restoration project	1,500	1,500	16,880	(15,380)
Whitfield Building start-up costs	-	-	8,250	(8,250)
<b>Total expenditures</b>	<b>738,667</b>	<b>751,567</b>	<b>111,578</b>	<b>639,989</b>
Net change in fund balance	-	-	116,082	116,082
Fund balance, beginning of year	-	-	469,671	-
Fund balance, end of year	\$ -	-	<b>585,753</b>	<b>116,082</b>
Non-GAAP change in fund balance			\$ 116,082	
Change in:				
Accounts receivable			2,239	
Accounts payable			774	
Accrued payroll and related liabilities			826	
Deferred revenue			(37,050)	
GAAP change in fund balance			\$ 82,871	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO  
VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

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

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

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

The financial 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 acquired 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.

Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include

**STATE OF NEW MEXICO  
VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

Government-wide and Fund Financial Statements (Continued)

1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The District reports the following major governmental funds:

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

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

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

**STATE OF NEW MEXICO  
VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(Continued)

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

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

Assets, Liabilities, Net Assets and Fund Balance

*Cash and Cash Equivalents*

The District's cash and cash equivalents consist of demand deposits and short term investments (certificates of deposit) with an original maturity of three months or less.

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.

*Investments*

All investments are stated at fair value which is determined by using selected bases. Interest income and realized gains and losses on investment transactions are included for financial statement purposes as investment income. The District's investments consist of certificates of deposit with original maturities greater than three months in various institutions.

*Accounts Payable*

The District's accounts payable consist primarily of payroll taxes due for the current period, and payroll expense owed at the end of the year of the year that had not yet been paid.

*Capital Assets*

Capital assets, which include property and equipment (including 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 more than \$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.



**STATE OF NEW MEXICO  
VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(Continued)

*Capital Assets (Continued)*

Property and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Buildings	39 years
Building improvements	20 years
Vehicles	5 years
Office equipment	5 years
Farm equipment	7 years
Computer equipment	5 years

*Compensated Absences*

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

As of June 30, 2007, the District accrued \$1,035 in compensated absences.

*Net Assets and Fund Balance*

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of three components – invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, restricted net assets which are liquid assets and have third-party (statutory, bond covenant or granting agency) limitations on their use and unrestricted net assets which represent unrestricted liquid assets. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The District had \$15,010 in net assets permanently restricted as an endowment at June 30, 2007. The endowment was established for the purpose of using the interest income to award annual scholarships to high school students residing within the Valencia Soil and Water Conservation District who demonstrate high regard for the wise use of natural resources related to soil and water and/or environmental improvement.

**STATE OF NEW MEXICO  
VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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.

**NOTE 2. CASH AND INVESTMENTS**

*Deposits*

*Custodial Credit Risk - Deposits.* Custodial credit risk is, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

**STATE OF NEW MEXICO  
 VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007**

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

As of June 30, 2007, the District's bank balance total of \$611,684 was exposed to credit risk in the amount of \$43,621 as follows:

Uninsured and uncollateralized	<u>\$ 43,621</u>
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In accordance with Section 6-10-17, NMSA, 1978 Compilation, the District is required to collateralize an amount equal to one-half of the public money in excess of \$100,000 at each financial institution.

The total balance in any single financial institution may at times exceed the \$100,000 in FDIC coverage available to individual depositors.

*Credit Risk.* The District has no formal policy on managing credit risk. State law limits investments to United States Government obligations, commercial paper with A-1 or better ratings, corporate bonds with a BBB+ or better rating, asset backed obligations with an AAA or better rating, or repurchase agreements.

***Investments***

*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.

All of the District's investments are in certificates of deposit. All of the Districts investments were insured by FDIC insurance at year-end.

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Non-Depreciable Assets:</b>				
Land 97.4 acres (Whitfield) \$	589,027	-	-	<b>589,027</b>
Land 1 acre (Rio Abajo)	-	10,000	-	<b>10,000</b>
Construction in Progress	-	8,251	-	<b>8,251</b>
Total capital assets	<u>\$ 589,027</u>	<u>18,251</u>	<u>-</u>	<u><b>607,278</b></u>

**STATE OF NEW MEXICO  
 VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007**

**NOTE 4. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2007, the following changes occurred:

	Beginning Balance	Additions	Payments	<b>Ending Balance</b>	Due Within One Year
Compensated Absences	\$ -	1,891	(856)	<b>1,035</b>	1,035

**NOTE 5. OTHER INFORMATION**

**Employee Retirement Benefits**

The District does not offer retirement benefits to its employees.

**Post-Employment Benefits**

The District does not offer post-employment benefits

**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 \$1,050,000 for each wrongful act and \$1,050,000 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 \$35,000 surety bond as well as commercial property coverage. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**STATE OF NEW MEXICO  
 VALENCIA COUNTY SOIL AND WATER CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007**

**NOTE 5. OTHER INFORMATION (CONTINUED)**

**Subsequent Event**

In February 2007, the Claunch-Pinto Soil and Water Conservation District assumed the trusteeship of the Upper Rio Grande Salt Cedar Control project from the New Mexico Association of Conservation Districts (NMCD). The following Soil and Water Conservation Districts (SWCD) entered into a Joint Powers Agreement with Claunch-Pinto SWCD for removal of salt cedar from the Upper Rio Grande Basin: East Rio Arriba, Ciudad, Coronado, Valencia, Santa Fe - Pojoaque and East Torraine. As of April 6, 2007 Valencia SWCD had not received any appropriations under the Joint Powers Agreement and the amount, if any, they would receive had not yet been determined.

**Joint Powers Agreement – Upper Rio Grande Salt Cedar Control Project**

During the 2002 session, the New Mexico State Legislature appropriated \$2.5 million to the New Mexico Department of Agriculture to remove salt cedar from the Upper Rio Grande River Basin. As a result of this appropriation, a joint powers agreement was established for this project. The terms of the agreement are summarized as follows:

Date of agreement:	June 24, 2002
Participants:	New Mexico Association of Conservation Districts and the East Rio Arriba, Santa Fe – Pojoaque, Coronado, Ciudad, Valencia, and Claunch-Pinto Soil and Water Conservation Districts.
Responsible party for operations:	Claunch-Pinto Soil and Water Conservation District
Description:	Upper Rio Grande Salt Cedar Control Project
Beginning and ending date of agreement:	Original agreement: July 1, 2002 to June 30, 2004 Extension of original agreement (with some revision): July 1, 2004 until the funding or resources cease.
Total estimated amount:	\$4,506,666
Amount expended to date:	\$4,630,391
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	Claunch-Pinto and Water Conservation District
The government agency where revenues and expenditures are reported:	New Mexico State University

**STATE OF NEW MEXICO  
VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS  
June 30, 2007**

Depository	Account Name	Type	Depository Balance	Reconciled Balance
Wells Fargo Bank	Checking Account	Checking	\$ 143,621	123,270
My Bank	Money Market	Savings	5,145	5,145
My Bank	Savings Account	Savings	4,436	4,436
UBS Financial Services	Money Market	Savings	36,085	36,085
<b>Total cash and cash equivalents</b>			<b>189,287</b>	<b>168,936</b>
My Bank	Certificate of Deposit	CD	15,010	15,010
UBS Financial Services	K Bank	CD	82,712	82,712
UBS Financial Services	Lehman Bro Commercial	CD	81,958	81,958
UBS Financial Services	Bank of Shorewood	CD	81,215	81,215
UBS Financial Services	Capital One Bank US	CD	80,640	80,640
UBS Financial Services	Capital One Bank VA	CD	80,862	80,862
<b>Total investments</b>			<b>422,397</b>	<b>422,397</b>
<b>Total deposit accounts</b>			<b>\$ 611,684</b>	<b>591,333</b>

**STATE OF NEW MEXICO  
 VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
 SCHEDULE OF PLEDGED COLLATERAL  
 June 30, 2007**

	Wells Fargo	My Bank	My Bank CD's	UBS Financial	UBS Financial CD's	Total
Deposits at June 30, 2007	\$ 143,621	9,581	15,010	36,085	407,387	611,684
Less: FDIC coverage	(100,000)	(9,581)	(15,010)	(36,085)	(407,387)	(568,063)
Uninsured public funds	43,621	-	-	-	-	43,621
Pledged collateral held by the pledging banks trust department or agent but not in the District's name	-	-	-	-	-	-
Uninsured and uncollateralized	\$ 43,621	-	-	-	-	43,621
50% pledged collateral requirement per statute	\$ 21,811	-	-	-	-	21,811
Total pledged collateral	-	-	-	-	-	-
Pledged collateral under the requirement	\$ 21,811	-	-	-	-	21,811

The certificates of deposit held at UBS Financial are invested in the certificate of deposit registry program with participating banks:  
 The following is a list of banks and certificate of deposit balances:

K Bank	\$ 82,712
Lehman Brothers Commercial	81,958
Bank of Shorewood IL	81,215
Capital One Bank	80,640
Capital One Bank VA	80,862
	<u>407,387</u>
FDIC Insurance	407,387
Uninsured balances	\$ -

# PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS  
3915 CARLISLE BLVD NE  
ALBUQUERQUE, NM 87107

## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards***

Mr. Hector H. Balderas, State Auditor and  
Mr. Charlie Sanchez Jr, Chair  
and Members of the Board of Supervisors  
Valencia Soil and Water Conservation District

We have audited the accompanying basic financial statements of the governmental activities, the general fund, and budgetary comparison of the Valencia Soil and Water Conservation District (District), as of and for the year ended June 30, 2007 and have issued our report thereon dated June 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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



Mr. Hector H. Balderas, State Auditor and  
Mr. Charlie Sanchez Jr, Chair  
and Members of the Board of Supervisors  
Valencia Soil and Water Conservation District

We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 07-1, 07-2, 07-3, 07-4, and 07-5.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that finding 07-5 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of 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 are described in the accompanying schedule of findings and responses as items 07-3, 07-4, and 07-6 to 07-7.

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 them.

This report is intended solely for the information and use of the District management, governing Board, the Department of Finance and Administration, the New Mexico State Legislature, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Perch & Associates LLC*

Albuquerque, New Mexico  
June 1, 2009

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT SUMMARY  
SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2007**

06-01 Noncompliance with the New Mexico State  
Public Money Law Requirements

Resolved

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

**07-1 Preparation of Financial Statements**

**CONDITION**

The Auditing Standards Board has issued *Statement on Auditing Standards No. 112, Communicating Internal Control Related Matters Identified in and Audit* (SAS 112). The new standard provides guidance to auditors on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. The standard requires the auditor to evaluate identified control deficiencies and determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses.

SAS 112 provides examples of circumstances that may be control deficiencies, significant deficiencies or material weaknesses (these terms are defined in the report on internal control above). One of the examples provided by SAS 112 is:

Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

The auditor prepares the financial statements for the District because District staff does not have the training or experience to prepare financial statements.

**CRITERIA**

The District's accounting staff should have the training and experience necessary to prepare the District's financial statements. SAS 112 indicates that a lack of qualifications to prepare the financial statements is a control deficiency.

**EFFECT**

The District's management and accounting staff may not be able to detect errors in reporting or financial presentation if they exist. Management may not be qualified to review the financial statements prepared by the auditor.

**CAUSE**

The District's accounting staff has not been trained on Governmental Accounting Standards and the related procedures to prepare financial statements.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-1 Preparation of Financial Statements (Continued)**

**RECOMMENDATION**

We recommend that District employees who participate in the accounting function obtain training in governmental accounting and the preparation of financial statements.

**MANAGEMENT RESPONSE**

The District is a small underfunded agency with a CPA on the Board of Supervisors who can review statements. The District Administrator has experience and training in accounting but not the appropriate support or required time commitment to apply knowledge and experience to development of an efficient fund accounting system for the District although when free training is available it is appropriate and encouraged that administrator attend. Also, to protect against potential misstatement and proper separation of duties, the most appropriate accounting policy would be to contract for professional services for periodic preparation of financial statements for review by the Board but the District is unable to fund at this time a contractor with the capabilities to do this.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-2 Disaster Recovery Plan**

**CONDITION**

The District does not have a disaster recovery plan in place. A disaster recovery plan should be a map for reestablishing operations after a disaster. This map should include details of, at minimum, the following:

- What hardware and software are in place and which vendors may be used to replace the hardware and software.
- Potential off-site locations for running operations.
- Names and telephone numbers of critical operations personnel that should be contacted during a disaster.
- Backup and recovery procedures for data.
- The location of the offsite data backups.
- A detailed list of instructions to be followed in order to reestablish operations.

We also noted the computer containing the financial system is kept on the ground. This leaves the computer susceptible to flood damage and possible data loss.

**CRITERIA**

Section 12-6-5, NMSA 1978, requires the annual financial and compliance audit of agencies to detail any violation of law or good accounting practices found by the audit. An adequate disaster recover plan is a requirement for continuing operations after a disaster. Storing a computer off the ground would prevent damage in the event of a flood.

**EFFECT**

The District may not be able to continue operations in the event of a disaster and is susceptible to data loss.

**CAUSE**

The District has not developed a detailed disaster recovery plan or adequate information technology general controls.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-2 Disaster Recovery Plan (Continued)**

RECOMMENDATION

We recommend that the District prepare a detailed disaster recovery plan that includes the items listed above. We also recommend that all computers containing data for the District are stored off the ground.

MANAGEMENT RESPONSE

The District, in sharing office space with the USDA NRCS agency in Los Lunas is in compliance with and follows the Evacuation Plan for the USDA Service Center in Los Lunas which includes:

- Names and telephone #s of critical operations personnel that should be contacted during a disaster.
- Backup and recovery procedures for data.
- Location of the offsite data backups which are backed up daily.
- A detailed list of instructions to be followed in order to reestablish operations.

However, because the District acquired their own computer system in January 2007 (VSWCD's electronic system is compliant with and connected to the USDA Agency network with internet access provided through USDA), it would be appropriate to supplement the USDA Evacuation plan with a District specific plan to address:

- What hardware and software are in place and which vendors may be used to replace the hardware and software.
- Additional potential off-site locations for running operations available specifically to the District if it becomes necessary for the District to sever operations from USDA following a disaster event.
- Formal documentation of Administrator's current practice to back up electronic files on a flash drive as well as a secondary hard drive within the computer system.

Secondarily, the USDA Evacuation Plan addresses the potential for flood as highly unlikely, but the District has opted to move the CPU off the floor, onto the desk, and this task has been completed.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-3 Travel and Per Diem Internal Controls**

**CONDITION**

As part of our audit we tested internal controls over twelve travel and per diem disbursements. We noted the following:

- For one of the disbursements tested there was no documentation of when the travel took place or how long the employee was traveling for. Partial day per diem is given, but because we do not know when the employee left or returned, we cannot determine if the partial day per diem is correct. We also cannot determine if payment was made in advance.
- For one of the items tested actual expenses were reimbursed for the lodging and a partial day per diem rate was disbursed for the two days of travel. Actual expenses should be reimbursed with partial day per diem paid only for the last day of travel when overnight lodging is no longer required, or overnight per diem rates should be paid for overnight travel and partial day rates should be used on the day of the return.

**CRITERIA**

The *NMAC Travel and Per Diem Regulations governing the Per Diem and Mileage Act* Section 2.42.2.9 subsection A states that an employee may be reimbursed actual expenses in lieu of the per diem rate where overnight travel is required. As per Section 2.42.2.8 subsection B(3), calculations to determine the number of hours to be reimbursed in the partial day require the time the traveler initially departed.

**EFFECT**

A reviewer cannot determine if employees were reimbursed at proper rates. This could result in the over or under statement of travel expense.

**CAUSE**

Proper internal controls were not followed when approving reimbursement of travel and per diem disbursements. The District may not be familiar with the NMAC Travel and Per Diem regulations governing the Per Diem and Mileage Act.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-3 Travel and Per Diem Internal Controls (Continued)**

RECOMMENDATION

The District should consider obtaining training for travel and per diem disbursements.

MANAGEMENT RESPONSE

Administrator has documentation of the New Mexico Mileage and Per Diem Act and additional information available on site for District employee and Supervisors reference which clearly details determination of reimbursements in accordance with State Law. The District concurs with the auditor that documentation requires additional detail and procedures for processing reimbursement and requests need to be formalized as part of overall accounting policies in an official manual to be reviewed and approved by the Board of Supervisors. The tasks of preparing a manual for accounting policies and procedures to be approved by the Board, more detailed logging forms for submittal of mileage and per diem, and collation of this detail with District payment vouchers (currently mileage/per diem detail is filed separately from payment vouchers) is a priority that still needs to be rectified.



**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-4 Payroll Internal Controls**

**CONDITION**

We tested internal controls over the payroll cycle. We noted the following:

- One employee is tracking accrued compensated absences including their own accruals. Balances are not reviewed.
- Leave time taken is not documented. This does not allow a reviewer to track the validity of vacation and sick pay or the reduction in vacation and sick accrual balances.
- The employee agreement does not state whether sick and vacations balances are paid out upon termination or specify balance carry-over policies. It is the opinion of management that these balances should be paid out.
- Pay rates are not authorized in personnel files.

We tested controls over 4 payroll transactions and noted the following:

- Three of the transactions tested were not signed by the Board Chair and an NRCS supervisor as required by District internal controls.
- Comp time is accrued in lieu of paying overtime for a non exempt employee. The District is not tracking comp time, and thus we were unable to determine if comp balances are accurate and are being accrued at the proper rate.
- There is an I-9 obtained for the only employee, however it has not been signed by an authorized representative of the District, and the identification is not documented.

**CRITERIA**

Good internal controls dictate that pay rate increases should not only be input into the payroll system, but should be documented in the employee's personnel file. Leave policies should be clearly defined in personnel policies and leave time taken and accrued should be tracked and reviewed.

Internal controls set forth by the District state that all time cards require the signature of the Board Chair and an NRCS supervisor. The Fair Labor Standards Act, Section .070 B states that comp time must be granted at one and a half hours for each hour of overtime worked. As required by the Immigration Reform and Control Act of 1986, all employees, citizens and non-citizens hired after November 6, 1986 and working in the United States must complete a Form I-9.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-4 Payroll Internal Controls (Continued)**

**EFFECT**

Leave accrual balances could be fraudulently misstated when there is no documentation of leave time taken or review of balances. Payments to terminated employees and liabilities could be misstated if the policy is not clear as to what is paid out upon termination, resulting under or over statement of liabilities or wages. Comp time balances could be accrued at improper rates resulting in the under or over statement of wages.

Employers who fail to obtain the appropriate documentation are not in compliance with federal immigration laws and may be subject to fines.

**CAUSE**

Procedures are not in place to ensure proper segregation of duties over leave accrual records and leave taken. The employee agreement is not detailed enough to provide sufficient guidance regarding leave accruals and carry-overs. The District is not familiar with labor policies regarding non-exempt employees. The District did not properly document the items necessary to complete the I-9 form.

**RECOMMENDATION**

The District should establish a policy that requires that time off is documented, approved, and retained. A review should be periodically performed of accrued balances. The District should also review the employee agreement to ensure it sufficiently covers leave policies. The District should perform an audit of personnel files and ensure that authorized pay rates and changes to pay rates are maintained. The District should consider obtaining training on Fair Labor Standards acts in order to ensure they are in compliance.

**MANAGEMENT RESPONSE**

The District concurs with the Auditor's finding regarding Payroll Internal Controls and it will be rectified with formalized policies (reviewed and approved by the Board of Supervisors) that address internal control of payroll.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-5 Bank Reconciliations and Old Outstanding Items (Material Weakness)**

**CONDITION**

As part of our audit we considered internal controls over cash accounts and reconciliations. We noted the following:

- Bank reconciliations are prepared by the individual making entries into the accounting system and not reviewed by another individual. Fraudulent transactions could go undetected.
- Account activity is not being recorded for the money market or savings accounts held by the District and reconciliations are not being prepared for these accounts.
- We also reviewed reconciliations and noted there were four checks totaling \$118 greater than six months old.

**CRITERIA**

One of the assertions inherent in the financial statements is completeness. Because the District is not recording activity or reconciling all accounts to the trial balance, cash accounts may be misstated. Good internal controls dictate that cash accounts should be reconciled on a regular basis and all related revenues and expenses should be recorded as they are earned or incurred. Good internal controls also dictate that reconciliations should be reviewed by an individual that is not issuing checks and making entries into the accounting system.

Another assertion inherent to the financial statements is existence. Good internal controls dictate that outstanding items older than one month should be reviewed for validity.

**EFFECT**

Cash balances were misstated before adjustments at year end.

Revenues and expenses related to investment income were understated.

**CAUSE**

The District does not have procedures in place to ensure bank reconciliations are prepared for all accounts and reviewed for completeness by an individual other than the preparer.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-5 Bank Reconciliations and Old Outstanding Items (Material Weakness)  
(Continued)**

**RECOMMENDATION**

The District should set up a procedure where a board member reviews original bank statements and the corresponding reconciliation for validity. The Board member should ensure that reconciliations are being prepared for all accounts and compared to the financial statements.

Outstanding checks and deposits older than one month should be reviewed to be sure they have been processed correctly, that the bank account has been reconciled correctly, or for other problems.

**MANAGEMENT RESPONSE**

The District concurs with this recommendation and a policy will be prepared for review and approval and hopefully implementation started by the Board of Supervisors. However, reliability of a Board Supervisor who is serving in Treasurer capacity of the Board but who may or may not have interest or experience in the details of internal auditing does not insure proper oversight of administrator conduct. To date, the District has submitted all bank statements to DFA with quarterly reports for their review and in audit year 05 it was recommended that the reconciliations be done manually on bank statement forms as well as the District reconciliation prepared in Quick Books which are also submitted to DFA. It is the District's understanding the DFA works closely with all Districts to provide this oversight where District Boards vary considerably in their ability to provide it through a voluntary Board and typically minimal staff/contracting capability.

The District concurs with the finding and policy should be determined, reviewed and approved, and implemented to rectify the condition.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-6 Pledged Collateral for Public Money**

**CONDITION**

The District was unable to produce a pledging report for balances exceeding FDIC insured limits.

**CRITERIA**

State Auditor rule 2.2.2.10 N (4)(a) requires that pledged collateral for deposits in banks, savings and loan associations, or credit unions, in an aggregate amount equal to half of the amount of public money in each account.

**EFFECT**

Deposits in excess of FDIC limits do not have securities pledged against them. The District could suffer a loss on their deposits if the financial institution were to fail.

**CAUSE**

The District was unaware of the pledging requirements for public funds. The District does not have a system in place to ensure that pledging reports were received from each financial institution.

**RECOMMENDATION**

The District should ensure that bank accounts are set up as public funds and that pledging reports are received on a monthly basis. The reports should be reviewed to ensure that public funds are adequately pledged.

**MANAGEMENT RESPONSE**

The District concurs with the Auditor's finding and intends to rectify the condition; A policy will be prepared for Board review and approval and the Treasurer will ensure that monthly pledging reports are received from the accounts where pledging may be necessary.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**07-7 Late Audit Report**

The June 30, 2007 audit report was not filed timely as required by State Auditor Rule NMAC 2.2.2.9.A. The audit report was submitted to the Office of the State Auditor on July 29, 2009.

**CRITERIA**

According to State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by December 1 following the fiscal year-end, thus requiring the June 30, 2007 report to be filed by December 1, 2007.

**EFFECT**

The District is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2007. The District does not have audited financial statements for use in borrowing, bonds, and grant applications.

**CAUSE**

The District was audited by the New Mexico State Auditor's Office in prior years (SAO). The SAO notified the District to obtain audit services from an independent certified public accountant too late to meet the deadline.

**RECOMMENDATION**

The District contract for and perform the late audits so that they are current in their audit reporting.

**MANAGEMENT RESPONSE**

The District agrees with the recommendation and needs additional funding to accomplish this.

**VALENCIA SOIL AND WATER CONSERVATION DISTRICT  
EXIT CONFERENCE  
Year Ended June 30, 2007**

An exit conference was held on July 24, 2009, and attended by the following:

Valencia Soil and Water Conservation District

Teresa Smith de Cherif, Board Supervisor  
Madeline Miller, Administrator

Porch & Associates LLC

Thad Porch, Partner

\* \* \* \* \*

The financial statements were prepared by Porch & Associates LLC from the books and records of the Valencia Soil and Water Conservation District. However, the contents of these financial statements remain the responsibility of the District's management.