

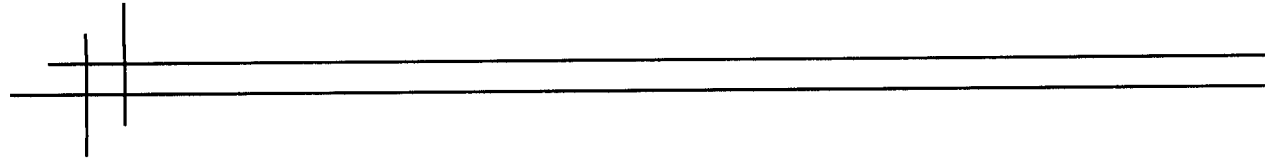


**STATE OF NEW MEXICO  
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**

**CAPITAN, NEW MEXICO**

**ANNUAL FINANCIAL REPORT**  
June 30, 2007

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



STATE OF NEW MEXICO  
**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**  
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 For the Year Ended June 30, 2007

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STATE OF NEW MEXICO  
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT  
Official Roster  
June 30, 2007

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**BOARD OF SUPERVISORS**

Preston Stone	Chairperson
Jim Cooper	Vice-Chairperson
Jerry Burchett	Secretary/Treasurer
Robert Runnels	Supervisor
Stan Thomas	Supervisor
James Sanchez	Supervisor
Scott Daniel	Supervisor

**ADMINISTRATIVE STAFF**

Brenda Addison	Program Director
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**De'Aun Willoughby CPA, PC**

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(505) 253-4313

Independent Auditor's Report

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

Mr. Balderas and Members of the Board

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the UPPER HONDO SOIL & 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in its financial position and the respective budgetary comparisons for major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements and budgetary comparisons presented as supplemental information.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

*De'Aun Willoughby CPA PC*

December 1, 2008

STATE OF NEW MEXICO  
**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**  
Statement of Net Assets  
June 30, 2007

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<b>ASSETS</b>	
Current Assets	
Cash in Banks	\$ 34,514
Investments	120,630
Total Current Assets	<u>155,144</u>
Non-current Assets	
Capital Assets	
Buildings & Improvements	119,933
Equipment & Vehicles	15,662
Less Accumulated Depreciation	<u>(22,671)</u>
Total Non-current Assets	<u>112,924</u>
Total Assets	<u>268,068</u>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Current Portion of Long-term Debt	<u>8,059</u>
Total Current Liabilities	<u>8,059</u>
Non-current Liabilities	
Loans Payable	<u>14,594</u>
Total Non-current Liabilities	<u>14,594</u>
Total Liabilities	<u>22,653</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	90,271
Unrestricted	<u>155,144</u>
Total Net Assets	<u>\$ 245,415</u>

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

STATE OF NEW MEXICO  
**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**  
Statement of Activities  
For the Year Ended June 30, 2007

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Program Expense:

Conservation		
Personnel Services	\$	55,144
Travel		8,257
Board Expense		790
Conservation Incentives		47,413
Office Supplies & Postage		1,156
Utilities		4,298
Annual Meeting		783
Information & Education		5,344
Dues & Subscriptions		2,937
Insurance & Bond		4,063
Watershed Grant		319,904
Benevolence		1,375
Maintenance & Equipment		10,905
Contract Labor		25,450
LCCWMA Allocation		10,000
Miscellaneous		880
Depreciation		3,648
Total Program Expenses		<u>502,347</u>

Program Revenues:

Operating Grants		388,289
Project Material Sales		226
Donations		2,065
Miscellaneous		2,290
Total Program Revenues		<u>392,870</u>

Net Program (Expense) Revenue (109,477)

General Revenues:

Property Taxes		86,039
State Allocation		22,632
Interest Income		6,270
Total General Revenues		<u>114,941</u>

Change in Net Assets 5,464

Net Assets at Beginning of Year 239,951

Net Assets at End of Year \$ 245,415

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

STATE OF NEW MEXICO  
 UPPER HONDO SOIL & WATER CONSERVATION DISTRICT  
 GOVERNMENTAL FUNDS  
 Balance Sheet  
 June 30, 2007

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	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 31,477	\$ 3,037	\$ 34,514
Investments	120,630	0	120,630
Total Assets	<u>\$ 152,107</u>	<u>\$ 3,037</u>	<u>\$ 155,144</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 0	\$ 0	\$ 0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
<b>Fund Balances</b>			
<b>Unreserved Reported In:</b>			
General Fund	152,107	0	152,107
Special Revenue Fund	0	3,037	3,037
Total Fund Balances	<u>152,107</u>	<u>3,037</u>	<u>155,144</u>
Total Liabilities and Fund Balances	<u>\$ 152,107</u>	<u>\$ 3,037</u>	<u>\$ 155,144</u>

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

STATE OF NEW MEXICO  
**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**  
 Reconciliation of the Governmental Funds  
 Balance Sheet to the Statement of Net Assets  
 June 30, 2007

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

Total Fund Balance - Governmental Funds		\$	155,144
Capital assets used in governmental activities are not			
The cost of capital assets	\$	135,595	
Accumulated depreciation is		<u>(22,671)</u>	112,924
Long-term and certain other liabilities, including bonds			
Notes Payable			<u>(22,653)</u>
Total net assets - governmental activities		\$	<u><u>245,415</u></u>

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



STATE OF NEW MEXICO  
**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**  
GOVERNMENTAL FUNDS  
Statement of Revenues, Expenditures and Changes  
in Fund Balance  
For the Year Ended June 30, 2007

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$ 88,327	\$ 0	\$ 88,327
State Allocation	22,632	0	22,632
Operating Grants	388,289	0	388,289
Project Material Sales	226	0	226
Interest Income	6,212	58	6,270
Donations	2,065	0	2,065
Miscellaneous	1,511	779	2,290
<b>Total Revenues</b>	<u>509,262</u>	<u>837</u>	<u>510,099</u>
<b>Expenditures</b>			
<b>Current</b>			
Personnel Services	54,562	0	54,562
Travel	8,257	0	8,257
Board Expense	790	0	790
Conservation Incentives	47,413	0	47,413
Office Supplies & Postage	1,156	0	1,156
Utilities	4,298	0	4,298
Annual Meeting	783	0	783
Information & Education	5,344	0	5,344
Dues & Subscriptions	2,937	0	2,937
Insurance & Bond	4,063	0	4,063
Noxious Weed Program	213	0	213
Project Expenses/Re-Leaf	667	0	667
Watershed Grant	319,962	0	319,962
Benevolence	1,375	0	1,375
Maintenance & Equipment	10,905	0	10,905
Contract Labor	25,450	0	25,450
LCCWMA Allocation	10,000	0	10,000
Miscellaneous	429	0	429
Capital Outlay	39,215	0	39,215
Loan Payment			
Principal	6,515	1,491	8,006
Interest	65	112	177
<b>Total Expenditures</b>	<u>544,399</u>	<u>1,603</u>	<u>546,002</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(35,137)</b>	<b>(766)</b>	<b>(35,903)</b>
<b>Fund Balances at Beginning of Year</b>	<u>187,244</u>	<u>3,803</u>	<u>191,047</u>
<b>Fund Balance End of Year</b>	<u>\$ 152,107</u>	<u>\$ 3,037</u>	<u>\$ 155,144</u>

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

STATE OF NEW MEXICO  
**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**  
 Reconciliation of the Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 To the Statement of Activities  
 June 30, 2007

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Excess (Deficiency) of Revenues Over Expenditures \$ (35,903)

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

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead reported as deferred revenues. They are however, recorded (2,288)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual de

Depreciation expense	\$ (3,648)	
Capital Outlays	39,215	35,567

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 8,006

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 82

Changes in Net Assets of Governmental Activities \$ 5,464

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

**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**

**GENERAL FUND**

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

Budget and Actual (Budgetary Basis)

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$ 94,000	\$ 94,000	\$ 90,222	\$ (3,778)
State Allocation	22,000	22,000	22,632	632
Operating Grant-Weed Program	30,000	30,000	107,106	77,106
Operating Grant-Water Board	0	0	281,182	281,182
Project Material Sales	0	0	226	226
Interest Income	0	0	6,212	6,212
Donations	0	0	2,065	2,065
Miscellaneous	1,000	1,000	1,511	511
<b>Total Revenues</b>	<u>147,000</u>	<u>147,000</u>	<u>511,156</u>	<u>364,156</u>
<b>Expenditures</b>				
Personnel Services	60,000	60,000	55,226	4,774
Travel	7,000	7,000	7,797	(797)
Board Expense	2,000	2,000	790	1,210
Conservation Incentives	60,568	60,568	47,413	13,155
Office Supplies & Postage	1,500	1,500	1,156	344
Utilities	5,500	5,500	4,298	1,202
Annual Meeting	1,500	1,500	783	717
Information & Education	11,000	11,000	5,344	5,656
Dues & Subscriptions	3,500	3,500	2,937	563
NMACD Convention Expense	1,500	1,500	460	1,040
Insurance & Bond	1,300	1,300	4,063	(2,763)
Watershed Grant	323,383	323,383	323,383	0
Benevolence	3,000	3,000	1,375	1,625
Maintenance & Equipment	16,500	16,500	10,905	5,595
Contract Labor	25,450	25,450	25,450	0
LCCWMA Allocation	10,000	10,000	10,000	0
Capital Outlay	39,215	39,215	39,215	0
Loan Payment				
Principal	6,515	6,515	6,515	0
Interest	65	65	65	0
Miscellaneous	1,500	1,500	1,308	192
<b>Total Expenses</b>	<u>580,996</u>	<u>580,996</u>	<u>548,483</u>	<u>32,321</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(433,996)	(433,996)	(37,327)	396,669
<b>Cash Balance Beginning of Year</b>	<u>189,434</u>	<u>189,434</u>	<u>189,434</u>	<u>0</u>
<b>Cash Balance End of Year</b>	<u>\$ (244,562)</u>	<u>\$ (244,562)</u>	<u>\$ 152,107</u>	<u>\$ 396,669</u>

**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**

**GENERAL FUND**

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

**Budget and Actual (Budgetary Basis)**

**For the Year Ended June 30, 2007**

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Reconciliation of Budgetary Basis to GAAP Basis

Excess (Deficiency) of Revenues Over Expenditures-Cash Basis	\$	(37,327)
Net change in Taxes Receivable		(4,183)
Net change in Accounts Payable		3,421
Net change in Accrued Payroll		664
Net change in Deferred Revenue		2,288
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis	\$	<u>(35,137)</u>

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

**UPPER HONDO SOIL & WATER CONSERVATION DISTRICT**  
**SPECIAL REVENUE-ISC PROGRAM**  
**Statement of Revenues, Expenditures, and Changes in Cash Balance-**  
**Budget and Actual (Budgetary Basis)**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
<b>Revenues</b>				
Interest Income	\$ 50	\$ 50	\$ 58	\$ 8
Miscellaneous	0	0	779	779
Total Revenues	<u>50</u>	<u>50</u>	<u>837</u>	<u>787</u>
<b>Expenditures</b>				
<b>Debt Service</b>				
Principal	1,491	1,491	1,491	0
Interest	112	112	112	0
Total Expenditures	<u>1,603</u>	<u>1,603</u>	<u>1,603</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,553)	(1,553)	(766)	787
Cash Balance Beginning of Year	<u>3,803</u>	<u>3,803</u>	<u>3,803</u>	<u>0</u>
Cash Balance End of Year	\$ <u>2,250</u>	\$ <u>2,250</u>	\$ <u>3,037</u>	\$ <u>787</u>
<b>Reconciliation of Budgetary Basis to GAAP Basis</b>				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ (766)	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ (766)	

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

STATE OF NEW MEXICO  
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT  
Notes to the Financial Statements  
June 30, 2007

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**Note A: Summary of Significant Accounting Policies**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to persons attending workshops sponsored by the Lincoln County Cooperative Weed Management Area (LCCWMA), 2) grants to support the LCCWMA and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) reimbursements received from other entities. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

STATE OF NEW MEXICO  
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT  
Notes to the Financial Statements  
June 30, 2007

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**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

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

The District reports the following major governmental funds:

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

The special revenue fund is utilized to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purpose. The special revenue fund was set up to account for the District's Low Interest Loan Program. The District receives low interest loans from the New Mexico Interstate Stream Commission (NMISC) to lend landowners funds at low interest rates to finance conservation projects on their property.

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. 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.

STATE OF NEW MEXICO  
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT  
Notes to the Financial Statements  
June 30, 2007

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**Assets, Liabilities, Net Assets and Fund Balance**

**Cash and Investments**

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

**Taxes Receivable**

Property taxes attach an enforceable lien as of January 1. Taxes are payable in equal semi-annual installments on November 10 and April 10 of the subsequent year. The taxes become delinquent thirty days after the due date. The taxes are collected by the Lincoln County Treasurer and are remitted to the District in the month following collection.

**Restricted Assets**

Certain proceeds (NMISC Low Interest Loan), as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable loan requirements.

**Capital Assets**

Capital assets, which include property, equipment (including software), farm equipment and furniture are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by state law as assets with an initial cost of \$5,000 and an estimated useful life of more than one year. The total amounts spent for construction, if any, are capitalized and reported in the government-wide financial statements. For donations, the government values these capital assets at the estimated fair value of the item at the date of acquisition. The cost of normal maintenance and repairs that do not add to the value or extend the life of the asset are not capitalized.

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

Buildings & Improvements	39 years
Furniture	15 years
Office equipment	6 years
Farm equipment	7 years
Off-road vehicle	5 years
Computer equipment	5 years



STATE OF NEW MEXICO  
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT  
Notes to the Financial Statements  
June 30, 2007

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**Accounts payable**

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

**Deferred Revenue**

The District's share of Lincoln County's delinquent property taxes appears as property taxes receivable in both the statement of net assets and the governmental funds balance sheet. In the government-wide financial statements, this amount has been recognized as revenue in the Statement of Activities. In the fund financial statements, the portion not collected within 60 days of the balance sheet is presented as deferred revenue.

**Compensated Absences**

The District's Program Director does not earn vacation or sick leave from the District. The program Director is an employee of Lincoln County. The District reimburses the County for a portion of the salary earned by the Program Director. The weed program coordinator is a part-time employee of the District.

It is the District's policy to permit the weed coordinator 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. All vacation pay is accrued when incurred in the government-wide financial statements. A current liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of resignations and retirements.

According to District policy, the weed coordinator accrues leave at six hours per month. The weed coordinator may not carry more than 160 hours forward from one calendar year to the next.

**Net Assets and Fund Balance**

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of four components — invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, restricted for the benevolence fund, restricted for the loan program and unrestricted net assets. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation and/or are legally restricted by outside parties for use for a specific purpose. A portion of the fund balance has been reserved for the loan program. The loan program resources have been classified as restricted assets on the Statement of Net Assets because their use is restricted by the lender. A portion of the fund balance has been reserved for the benevolence fund. The Benevolence Fund resources are classified as restricted assets on the Statement of Net Assets because their use is restricted by the donors.

STATE OF NEW MEXICO  
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT  
Notes to the Financial Statements  
June 30, 2007

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**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. There were no changes made to the budget during the fiscal year. Encumbrance accounting is not utilized by the District.

**Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial Statements**

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

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

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

Reconciliations are located at the bottom of each budget actual.

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**NOTE B: CASH AND INVESTMENTS**

**Cash and Investments Cash in Bank:**

First Federal

Account Name	Account Type	Bank Balance	Reconciled Balance
Operational	Checking	\$ 50,393	\$ 10,413
LCCWM	Checking	# 16,358	16,358
ISC loan program	Checking	3,861	2,257
CMA	Savings	5,486	5,486
	Total	76,098	\$ 34,514
	Less: FDIC coverage	(76,098)	
	Amount uninsured	\$ 0	

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

*Custodial Credit Risk* — Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2007, none of the Districts bank balances were exposed to custodial credit risk.

**New Mexico State Treasurer**

<u>Name of Account</u>	<u>Balance Per Bank 06-30-08</u>	<u>Reconciled Balance</u>	<u>Type</u>
NM State Investment Council	\$ 120,630	\$ 120,630	Investment

The investments with the State Treasurer are valued at fair value based on quoted market prices as of valuation date.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 1, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments;

The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested; and

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Participation in the local government investment pool is voluntary.

**Interest Rate Risk**

Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. The WAM for this investment is 24 days. The investment is rated AAAM and the rate is 5.2508%.

**NOTE C: CAPITAL ASSETS**

Capital Assets Balances and Activity for the Year Ended June 30, 2007, is as follows:

	<u>Balance 6/30/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/07</u>
<b>Governmental Activities</b>				
Capital Assets, being Depreciated				
Buildings & Improvements	80,718	39,215	0	119,933
Equipment & Vehicles	15,662	0	0	15,662
Total Capital Assets, being Depreciated	<u>96,380</u>	<u>39,215</u>	<u>0</u>	<u>135,595</u>
<b>Less Accumulated Depreciation</b>				
Buildings & Improvements	12,017	1,599	0	13,616
Equipment & Vehicles	7,006	2,049	0	9,055
Total Accumulated Depreciation	<u>19,023</u>	<u>3,648</u>	<u>0</u>	<u>22,671</u>
Capital Assets, net	<u>\$ 77,357</u>	<u>\$ 35,567</u>	<u>\$ 0</u>	<u>\$ 112,924</u>

Depreciation expense was charged to governmental activities as follows:

Conservation	\$ <u>3,648</u>
Total depreciation expenses	\$ <u><u>3,648</u></u>

**Note D: LONG TERM DEBT**

Notes payable represent loan balances due the New Mexico Interstate Stream Commission (NMISC) under the District's Low Interest Loan Program and the New Mexico Finance Authority for the purchase of the office building.

The NMISC loan is repayable in annual installments over 20 years at the interest of two and one-half percent. The promissory note is dated 6/22/98, the loan amount was \$25,000 and principal and interest payments of \$1,064 are due annually on 7/1/06 through 7/1/09. In fiscal year 2003, the District paid \$13,239 to maintain the cash balance below \$10,000 according to the contract between the District and New Mexico Interstate Stream commission.

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The NMFA loan is repayable in annual installments over 10 years at the interest rate of zero percent. The promissory note is dated 11/1/00, the loan amount was \$63,000, and principal and interest payments of \$6,434 to \$6,564 are due annually on 5/1/07 through 5/1/10.

The annual debt service requirements to maturity at June 30, 2007 are as follows:

Year Ended	Principal	Interest	Total
2008	8,059	124	8,183
2009	8,029	62	8,091
2010	6,565	8	6,573
Total \$	22,653	194	22,847

**Changes in Long-term Liabilities**

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

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07	Amounts Due Within One Year
<b>Notes Payable:</b>					
NMISC	\$ 4,501	\$ 0	\$ 1,491	\$ 3,010	\$ 1,528
NMFA	26,158	0	6,515	19,643	6,531
	30,659	0	8,006	22,653	8,059
Compensated Absences	82	0	82	0	0
<b>Total Long-Term Liabilities</b>	\$ 30,741	\$ 0	\$ 8,088	\$ 22,653	\$ 8,059

Compensated absences and the note payable to NMFA are generally liquidated by the general fund. The note payable to the NMISC is generally liquidated by the special revenue fund.

**Note E: Other Information**

**A. Employee Benefits**

The District does not offer a pension plan, deferred compensation plan, or post-employment benefits to its employees. The District's Program Director is on Lincoln County's payroll, which handles the Director's deductions and benefits including a retirement program (PERA) and health insurance. The District reimburses the County for the Program Director's salary only. The District reimburses the Weed Specialist for a portion of her medical insurance premiums.

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**B. Risk Management**

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,000,000 for each wrongful act and \$1,000,000 for the policy aggregated. The District is required to obtain a corporate fidelity bond on behalf of persons responsible for District assets. The District currently maintains a \$100,000 fidelity bond on its Program Director and Board of Supervisors. The District has insured its office building for \$86,940, the chemical storage building for \$6,300 and the contents for \$10,610 in each building. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

**Note F: Joint Powers Agreement — Pecos River Salt Cedar Control Project**

During the 2002-2004 sessions, the New Mexico State Legislature appropriated a total of \$3.9 million to the New Mexico Department of Agriculture to remove salt cedar from the Pecos River Basin. In 2004, another \$466,666 was appropriated to restore and revegetate the affected areas. As a result of these appropriations, the District entered into a joint powers agreement 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 Carlsbad, Chaves, Central Valley, Hagerman-Dexter, DeBaca, Penasco, Guadalupe, Upper Hondo, and Tierra Y Montes Soil and Water Conservation Districts
Responsible party for operations:	Carlsbad Soil and Water Conservation District
Description:	Pecos River 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 terminates.
Total estimated amount:	\$4,506,666
Amount expended to date:	\$4,458,970
Audit responsibility:	New Mexico State University, New Mexico Department of Agriculture
Fiscal agent:	Carlsbad Soil and Water Conservation District
The government agency where revenues and expenditures are reported:	New Mexico State University

During the fiscal year ending June 30, 2007, the District received no funds through this joint powers agreement.

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

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

Mr. Balderas and Members of the Board

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and major special revenue funds and the combining and individual funds presented as supplemental information of Upper Hondo Soil & Water Conservation District, (District), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of 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 District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency, 07-01, described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

*De'Ann Willoughby* CPA PC

December 1, 2008



STATE OF NEW MEXICO  
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Findings and Responses  
June 30, 2007

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**Prior Year Audit Findings**

	<u>Status</u>
05-01 Uncollateralized Bank Accounts	Resolved
06-01 Grant Management	Resolved
06-02 Grant Accounting	Resolved

**Current Year Audit Findings**

07-1 Late Audit Report

Condition

The audit report was filed after the due date. The report was submitted on 12/1/08 to the State

Criteria

According to the State Auditor Rule 2.2.2.9 (d), the audit report due date for the District is December 1.

Cause

The District did not contract with the auditor until after the due date of the audit report.

Effect

The users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit report could have an effect on state and federal funding.

Recommendation

The District should make every effort to hire an auditor and complete their audit timely.

Response

We will make an effort to solicit an auditor and complete our audit timely.

**Financial Statement Preparation**

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

**Exit Conference**

An exit conference was held on December 1, 2008. Those present were Preston Stone, Chairperson, Brenda Addison, Program Director and De'Aun Willoughby, CPA.