

State of New Mexico
OFFICE OF THE STATE AUDITOR

STATE OF NEW MEXICO

UPPER HONDO

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005

(With Independent Auditor's Report Thereon)



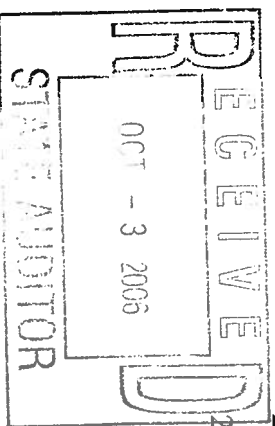
Domingo P. Martinez, CGFM
State Auditor

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STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

TABLE OF CONTENTS
JUNE 30, 2005

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents	i	i
Official Roster	ii	ii
FINANCIAL SECTION		
Independent Auditor's Report	1	1
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	3
Statement of Activities	2	4
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	5
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets		
Statement of Revenues, Expenditures and Changes In Fund Balances – Governmental Funds	4	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities		
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – General and Special Revenue Funds	5	9
Notes to the Financial Statements		10
OTHER REPORTS		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22
Schedule of Findings and Recommendations		24
Exit Conference		26



STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
OFFICIAL ROSTER
JUNE 30, 2005

<u>Board of Supervisors</u>	<u>Position</u>
Mary Shanks	Chairperson
J. James Sanchez	Vice-Chairperson
Jerry Burchett	Secretary/Treasurer
Robert Runnels	Supervisor
Stan Thomas	Supervisor
Preston Stone	Supervisor
Jim Cooper	Supervisor
<u>District Personnel</u>	<u>Title</u>
Glenda Booher	Program Director



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Ms. Mary Shanks, Chair
and Members of the Board of Supervisors
Upper Hondo Soil and Water Conservation District
Box 900 – Highway 380 West
Capitan, New Mexico 88316

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Upper Hondo Soil and Water Conservation District (District) as of and for the year ended June 30, 2005, which collectively comprise the District's basis 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 each major of the District as of June 30, 2005, and the respective changes in financial position, thereof and the 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 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 9, 2006 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.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR
March 9, 2006

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

Exhibit 1

	Governmental Activities
Assets	
Cash	\$ 58,517
Cash, restricted	8,621
Investments	110,680
Taxes receivable	4,337
Capital assets, net	74,683
Total assets	256,838
Liabilities	
Accounts payable	6,314
Accrued payroll	508
Noncurrent liabilities:	
Due within one year	7,130
Due in more than one year	32,114
Total liabilities	46,066
Net Assets	
Invested in capital assets	74,683
Restricted for:	
Loan program	5,356
Benevolence fund	3,265
Unrestricted	127,468
Total net assets	\$ 210,772

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

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities
Program Expenses:	
Conservation:	
Personal services	\$ 30,583
Travel and per diem	7,520
Board Expense	383
Conservation incentive	21,076
Chemicals	292
Legal notice/advertising	189
Office supplies and postage	2,300
Professional fees	459
Utilities	4,041
Annual meeting	686
Information and education	2,127
Dues and subscriptions	2,125
Insurance and bond	681
Benevolence	2,600
Maintenance and repairs	2,071
NFWF weed program	18,495
Noxious weed program	15,714
Depreciation	3,080
Interest	233
Total program expenses	114,655
Program Revenues:	
Federal operating grants and contracts	18,495
County grant-weed program	3,835
Carizozo SWCD grant-weed program	5,000
Charges for services-weed program	1,016
Reimbursements	8,750
Donations	3,565
Miscellaneous	586
Total program revenues	41,247
Net program (expense) revenue	(73,408)
General Revenues:	
NMDA allotment	9,775
Property taxes	87,798
Interest	2,023
Total general revenues	99,596
Change in net assets	26,188
Net assets at beginning of year:	
As originally stated	183,345
Restatement	1,239
As restated	184,584
Net assets at end of year	\$ 210,772

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

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2005

Exhibit 3

	General Fund	Special Revenue Fund	Total
Assets			
Cash	\$ 58,517	\$ -	\$ 58,517
Cash, restricted	3,265	5,356	8,621
Investments	110,680	-	110,680
Property taxes receivable	4,337	-	4,337
Total assets	<u>\$ 176,799</u>	<u>\$ 5,356</u>	<u>\$ 182,155</u>
Liabilities and fund balance			
Liabilities:			
Accounts payable	\$ 6,314	\$ -	\$ 6,314
Accrued payroll	508	-	508
Deferred revenue	3,070	-	3,070
Total liabilities	<u>9,892</u>	<u>-</u>	<u>9,892</u>
Fund balance:			
Reserved for loan program	-	5,356	5,356
Reserved for benevolence fund	3,265	-	3,265
Unreserved, undesignated	163,642	-	163,642
Total fund balance	<u>166,907</u>	<u>5,356</u>	<u>172,263</u>
Total liabilities and fund balance	<u>\$ 176,799</u>	<u>\$ 5,356</u>	<u>\$ 182,155</u>

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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:

Fund Balance - Balance Sheet (Exhibit 3)	\$ 172,263
Capital assets, net of accumulated depreciation	74,683
Delinquent property taxes not recognized as income in the funds	3,070

Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Notes payable and accrued compensated absences	<u>(39,244)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 210,772</u></u>

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	Special Revenue Fund	Total
Revenues			
Property taxes	\$ 84,729	-	\$ 84,729
State allocation	9,775	-	9,775
NFWF grant - noxious weed program	18,495	-	18,495
Noxious weed program - Lincoln County	9,473	-	9,473
Salary reimbursements	8,750	-	8,750
Self generated-project materials sales	377	-	377
Interest	1,997	26	2,023
Donations	3,565	-	3,565
Miscellaneous	586	-	586
Total revenues	137,747	26	137,773
Expenditures			
Conservation:			
Current:			
Personal services	29,951	-	29,951
Travel	7,520	-	7,520
Board expense	383	-	383
Conservation incentives/cost share	21,076	-	21,076
Chemicals	292	-	292
Legal notice/Advertising	189	-	189
Office supplies and postage	2,300	-	2,300
Professional fees	459	-	459
Utilities	4,041	-	4,041
Annual meeting	686	-	686
Information and education	2,127	-	2,127
Dues and subscriptions	2,125	-	2,125
Insurance and bond	681	-	681
Benevolence	2,600	-	2,600
Maintenance and repairs	2,071	-	2,071
NFWF weed program	18,495	-	18,495
Noxious weed program	15,715	-	15,715
Capital outlay	1,525	-	1,525
Debt service:			
Principal	6,483	1,419	7,902
Interest	49	184	233
Total expenditures	118,768	1,603	120,371
Net change in fund balance	18,979	(1,577)	17,402
Fund balance beginning of year:			
As originally stated	146,689	6,933	153,622
Restatement	1,239	-	1,239
As restated	<u>147,928</u>	<u>6,933</u>	<u>154,861</u>
Fund balance end of year	\$ 166,907	\$ 5,356	\$ 172,263

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

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balance - Governmental Funds (Exhibit 4) \$ 17,402

Amounts reported in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful life of the asset and reported as depreciation expense as follows:

Capital outlay	1,525
Depreciation expense	(3,080)

Change in compensated absences not accrued in the funds	(631)
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Uncollected delinquent property taxes not recognized as revenue in the funds	3,070
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Repayment of principal on long-term debt (note payable) is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount repaid in the current year:

	<u>7,902</u>
Change in net assets - Statement of Activities (Exhibit 2)	<u>\$ 26,188</u>

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

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Exhibit 5

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
Property taxes	\$ 80,000	\$ 80,000	\$ 83,462	\$ (3,462)
State allocation	10,500	10,500	9,775	725
Noxious weed program	38,000	38,000	27,968	10,032
Water Trust Board grant	117,000	115,250	-	115,250
Salary reimbursements	7,000	8,750	8,750	-
Self generated	1,000	1,000	377	623
Interest	2,000	2,000	1,997	3
Donations	5,000	5,000	3,565	1,435
Miscellaneous	-	-	586	(586)
Total revenues	<u>\$ 260,500</u>	<u>\$ 260,500</u>	<u>\$ 136,480</u>	<u>\$ 124,020</u>
Expenditures				
Current:				
Personal services	\$ 24,000	\$ 24,000	\$ 25,756	\$ (1,756)
Travel	4,000	4,000	7,520	(3,520)
Board expense	2,000	2,000	383	1,617
Conservation incentives	30,000	16,250	21,076	(4,826)
Legal notice/Advertising	750	750	189	561
Office supplies and postage	1,300	1,300	1,822	(522)
Utilities	4,000	4,000	3,989	11
Professional fee	-	750	459	291
Governmental gross receipts tax	300	300	5	295
Annual meeting	850	850	686	164
Information and education	3,500	3,500	2,127	1,373
Dues and subscriptions	3,000	3,000	2,125	875
Windbreak/seed program	10,000	10,000	-	10,000
Insurance and bond	1,300	1,300	681	619
Noxious weed program	38,000	48,000	34,881	13,119
Chemicals	1,000	1,000	292	708
Watershed Grant	115,000	115,000	-	115,000
Benevolence	3,000	3,000	2,600	400
Maintenance and repairs	4,500	4,500	2,131	2,369
Supplies/non capital equipment	-	-	335	(335)
Miscellaneous	-	-	138	(138)
Capital outlay	-	3,000	1,525	1,475
Debt service	7,000	7,000	6,532	468
Total expenditures	<u>\$ 253,500</u>	<u>\$ 253,500</u>	<u>\$ 115,252</u>	<u>\$ 138,248</u>

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

I. Summary of Significant Accounting Policies

A. Reporting Entity

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). The District, a phase three government, was required to implement GASB Statement 34, is required to implement GASB Statement No. 40, Deposit and Investment Risk Disclosures in fiscal year 2005. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities,

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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 South Central Mountain R C & D. 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.

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

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

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

Property taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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.

D. Assets, Liabilities, Net Assets and Fund Balance

1. Cash and Cash Equivalents

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, 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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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 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.

2. 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. See also note D.6, Deferred revenue.

3. 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.

4. 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 \$1,000 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	39 years
Building improvements	39 years
Furniture	15 years

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Office equipment	5 years
Farm equipment	7 years
Computer equipment	5 years

5. 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. Also included is the amount the District agreed to pay to the former Program Director for her accrued annual leave as of the date of her retirement.

6. 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.

7. Compensated Absences

The District's current Program Director does not earn vacation or sick leave from the District. The current 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.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

8. 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.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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. The significant budget adjustments made during the fiscal year were as follows: to increase the Noxious Weed Program funds to \$25,000; and to add a line item "Benevolence Fund" in the amount of \$3,000 in both revenues and expenditures. Encumbrance accounting is not utilized by the District.

B. Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial Statements

	General Fund	Special Revenue Fund
Non-GAAP revenues (Exhibit 5)	\$ 136,480	\$ 26
Prior year receivables	-	-
Current year receivables	4,337	-
Current year deferred revenue	<u>(3,070)</u>	<u>-</u>
GAAP revenues (Exhibit 4)	<u>\$ 137,747</u>	<u>\$ 26</u>
Non-GAAP expenditures (Exhibit 5)	\$ 115,252	\$ 1,603
Prior year payable	(2,918)	-
Prior year payroll accrual	(388)	-
Current year accounts payable	6,314	-
Current year accrued payroll	509	-
GAAP expenditures (Exhibit 4)	<u>\$ 118,769</u>	<u>\$ 1,603</u>

III. Detailed Notes on all Funds

A. Cash and Investments

As of June 30, 2005, the District has a carrying amount of deposits of \$67,138. The deposits consist of four bank accounts at First Federal Bank with a total bank balance of \$75,530 and one account at Bank of Albuquerque with a bank balance of \$1,258. The investment consists of \$110,680 held in the State Treasurer's Local Government Investment Pool. The difference between the total bank balance of \$76,788 and the carrying amount of \$67,138 were a deposit in transit and outstanding checks at year end. As of the balance sheet date, all bank account balances were fully covered by FDIC insurance.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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, 2005, none of the Districts bank balances were exposed to custodial credit risk.

	First Federal Bank	Bank of Albu- querque
Demand deposits:		
Checking	\$ (12,659)	\$ 1,258
Weed program	18,723	-
ISC loan program	5,356	-
Money market	<u>38,792</u>	<u>-</u>
Total	75,530	1,258
Less: FDIC coverage	<u>(75,530)</u>	<u>(1,258)</u>
Amount uninsured	<u>\$ -</u>	<u>\$ -</u>

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

B. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Description	Balance		Deletions	Balance	
	6/30/04	6/30/05		6/30/04	6/30/05
Governmental funds:					
Building	\$ 63,171	\$ -	\$ -	\$ 63,171	
Building improvements	17,547	-	-	17,547	
Furniture	2,359	-	-	2,359	
Farm equipment	1,437	-	-	1,437	
Computer equipment	4,742	1,525	-	6,267	
Totals	<u>89,256</u>	<u>1,525</u>	<u>-</u>	<u>90,781</u>	
Less Accumulated depreciation:					
Building	6,377	1,620		7,997	
Building improvements	1,500	450		1,950	
Furniture	758	158		916	
Farm equipment	1,437	-		1,437	
Computer equipment	2,946	852		3,798	
Net capital assets	<u>(13,018)</u>	<u>(3,080)</u>	<u>-</u>	<u>(16,098)</u>	
	<u>\$ 76,238</u>	<u>\$ (1,555)</u>	<u>\$ -</u>	<u>\$ 74,683</u>	

C. 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 7/1/05 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.

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

\$63,000, and principal and interest payments of \$6,434 to \$6,564 are due annually on 5/1/06 through 5/1/10.

The annual debt service requirements to maturity at June 30, 2005 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
30-Jun-06	\$ 6,499	\$ 82	\$ 6,581
30-Jun-07	7,968	216	8,184
30-Jun-08	8,020	164	8,184
30-Jun-09	8,074	110	8,184
30-Jun-10	8,052	56	8,108
Total	\$ 38,613	\$ 628	\$ 39,241

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2005 was as follows:

	<u>Balance 6/30/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/05</u>	<u>Amount due within 1 year</u>
Note payable to NMISC	\$ 7,375	\$ -	\$ 1,419	\$ 5,956	\$ -
Note payable to NMFA	39,140	-	6,483	32,657	6,499
Compensated Absences	46,515	-	7,902	38,613	6,499
Totals	\$ 46,515	\$ 760	\$ 8,031	\$ 39,244	\$ 7,130

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

IV. 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 retire 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.

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 \$82,800 and the contents for \$10,610. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

C. 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:

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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:	July 1, 2002 to June 30, 2004
Total estimated amount:	\$4,366,666
Amount expended to date:	See Carlsbad SWCD Financial Statements
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

D. Restatement of Beginning Net Assets and Fund Balance

The District restated the prior year net assets and fund balance by \$1,239. The net assets and fund balance were increased to record a bank account with Bank of Albuquerque connected with the purchase of the office building.



State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

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*

Ms. Mary Shanks, Chair
and Members of the Board of Supervisors
Upper Hondo Soil and Water Conservation District
P.O. Box 900 – Highway 380 West
Capitan, New Mexico 88316

We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons of the Upper Hondo Soil and Water Conservation District (District) as of and for the year ended June 30, 2005 and have issued our report dated March 9, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico State University - Department of Agriculture, the state legislature and grantors and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

March 9, 2006

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

STATUS OF PRIOR YEAR AUDIT FINDINGS

None.

CURRENT YEAR AUDIT FINDINGS

Finding 05-01 – Uncollateralized Bank Accounts

Condition:

The District's cash balance on deposit at the bank exceeded the FDIC limit of \$100,000 on December 31, 2004 by \$4,535. The balance did not go below \$100,000 until \$42,000 was transferred to the State Treasurer's Local Government Investment Pool on January 7, 2005. It appears this is the first time the District's accounts exceeded the FDIC limit. The District was not under collateralized as of June 30, 2005.

Criteria:

The Public Money statutes, 6-10-17 NMSA 1978 requires the bank to collateralize the District's bank accounts in an amount equal to one half of the public monies in excess of the FDIC insured amount.

Effect:

The District had cash on deposit at the bank that was at risk of loss in the case of bank failure.

Cause:

The District's balance on deposit went over \$100,000 on December 22, 2004 with the deposit of the mill levy check from Lincoln County. The bank did not post collateral because it may not have been monitoring the District's accounts for purposes of collateralization. The bank may also not have the accounts flagged as government accounts. The District also had more cash in the bank this year as a result of the mill levy bringing in more revenue.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005

Recommendation:

Ask the bank to flag the District's accounts so bank employees can monitor the District's account balances and then post collateral when needed.

District's Response:

The District has contacted the bank, with the bank agreeing to better monitor the accounts if the balance exceeds \$100,000. Then, they will post the collateral when and where needed.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
JUNE 30, 2005

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor. However, the contents remain the responsibility of the District.

Exit Conference

On March 15, 2006, an exit conference was held at the NRCS Office in Carrizozo, NM with Mr. Jerry Burchett, Secretary-Treasurer and Ms. Glenda Booher, Program Director of the Upper Hondo Soil and Water Conservation District. Representing the Office of the State Auditor was John R. Earnshaw, CPA and Audit Manager.