

STATE OF NEW MEXICO

UPPER HONDO

SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

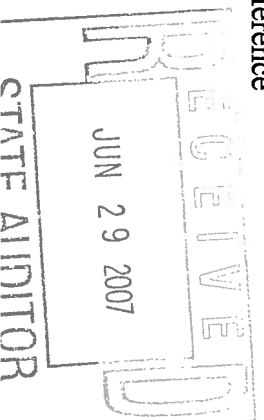
Fiscal Year Ended June 30, 2006

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

TABLE OF CONTENTS
JUNE 30, 2006

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents	i	
Official Roster	ii	
FINANCIAL SECTION		
Independent Auditor's Report		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		6
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		8
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		28



RECEIVED
FEB 21 2008
STATE AUDITOR

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
OFFICIAL ROSTER
JUNE 30, 2006

<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



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

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, 2006, 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 fund of the District as of June 30, 2006, 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 14, 2007 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 14, 2007

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2006

	Governmental Activities	
Assets		
Cash	\$ 68,226	
Cash, restricted	9,127	
Investments	115,884	
Accounts receivable	4,183	
Capital assets, net	<u>77,357</u>	
Total assets	<u>\$ 274,777</u>	
Liabilities		
Accounts payable	\$ 3,421	
Accrued payroll	664	
Noncurrent liabilities:		
Due within one year	6,597	
Due in more than one year	<u>24,144</u>	
Total liabilities	<u>34,826</u>	
Net Assets		
Invested in capital assets	77,357	
Restricted for:		
Loan program	3,803	
Benevolence fund	5,324	
Unrestricted	<u>153,467</u>	
Total net assets	<u><u>\$ 239,951</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 ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities
Program Expenses:	
Conservation:	
Personal services	\$ 15,775
Travel and per diem	6,973
Board Expense	574
Conservation incentive	17,496
Contract labor	2,178
Legal notice/advertising	303
Office supplies and postage	2,219
Utilities	3,689
Annual meeting	722
Information and education	2,663
Dues and subscriptions	2,200
Insurance and bond	681
Benevolence	566
Maintenance and repairs	2,348
Re-Leaf Project	6,737
Noxious weed program	52,774
Depreciation	2,925
Interest	230
Total program expenses	121,053
Program Revenues:	
Federal operating grants and contracts	18,122
Re-Leaf Grant	5,945
Carriozo SWCD grant-weed program	5,000
Charges for services-weed program	486
State operating grants and contracts	19,339
Donations	2,625
Miscellaneous	641
Total program revenues	52,158
Net program (expense) revenue	(68,895)
General Revenues:	
NMDA allotment	9,944
Property taxes	83,942
Interest	4,188
Total general revenues	98,074
Change in net assets	29,179
Net assets at beginning of year	210,772
Net assets at end of year	\$ 239,951

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, 2006

Exhibit 3

	General Fund	Special Revenue Fund	Total
Assets			
Cash	\$ 68,226	\$ -	\$ 68,226
Cash, restricted	5,324	3,803	9,127
Investments	115,884	-	115,884
Accounts receivable	4,183	-	4,183
Total assets	<u>\$ 193,617</u>	<u>\$ 3,803</u>	<u>\$ 197,420</u>
Liabilities and fund balance			
Liabilities:			
Accounts payable	\$ 3,421	\$ -	\$ 3,421
Accrued payroll	664	-	664
Deferred revenue	<u>2,288</u>	<u>-</u>	<u>2,288</u>
Total liabilities	6,373	-	6,373
Fund balance:			
Reserved for loan program	-	3,803	3,803
Reserved for benevolence fund	5,324	-	5,324
Unreserved, undesignated	<u>181,920</u>	<u>-</u>	<u>181,920</u>
Total fund balance	187,244	3,803	191,047
Total liabilities and fund balance	<u>\$ 193,617</u>	<u>\$ 3,803</u>	<u>\$ 197,420</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, 2006

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)	\$ 191,047
Capital assets, net of accumulated depreciation	77,357
Delinquent property taxes not recognized as income in the funds	2,288
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>(30,741)</u>
Net Assets - Statement of Net Assets (Exhibit 1)	<u><u>\$ 239,951</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, 2006

	General Fund	Special Revenue Fund	Total
Revenues			
Property taxes	\$ 84,724	-	\$ 84,724
State allocation	9,944	-	9,944
Operating grants - weed program	42,461	-	42,461
Operating grant-Forest Re-Leaf	5,945	-	5,945
Self generated-project materials sales	486	-	486
Interest	4,138	50	4,188
Donations	2,625	-	2,625
Miscellaneous	641	-	641
Total revenues	150,964	50	151,014
Expenditures			
Conservation:			
Current:			
Personal services	16,324	-	16,324
Travel	6,973	-	6,973
Board expense	574	-	574
Conservation incentives/cost share	17,496	-	17,496
Legal notice/Advertising	303	-	303
Office supplies and postage	2,219	-	2,219
Contract labor	2,178	-	2,178
Utilities	3,689	-	3,689
Annual meeting	722	-	722
Information and education	2,663	-	2,663
Dues and subscriptions	2,200	-	2,200
Insurance and bond	681	-	681
Benevolence	566	-	566
Maintenance and repairs	2,348	-	2,348
Re-leaf project expenditures	6,737	-	6,737
Weed Program	52,774	-	52,774
Capital outlay	5,599	-	5,599
Debt service:			
Principal	6,499	1,455	7,954
Interest	82	148	230
Total expenditures	130,627	1,603	132,230
Net change in fund balance	20,337	(1,553)	18,784
Fund balance beginning of year	166,907	5,356	172,263
Fund balance end of year	\$ 187,244	\$ 3,803	\$ 191,047

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, 2006

Net change in fund balance - Governmental Funds (Exhibit 4) \$ 18,784

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	5,599
Depreciation expense	(2,925)

Decrease in compensated absences not accrued in the funds	549
---	-----

Decrease in uncollected delinquent property taxes not recognized in the funds	(782)
---	-------

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>7,954</u>
--	--------------

Change in net assets - Statement of Activities (Exhibit 2)	<u>\$ 29,179</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, 2006

Exhibit 5

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues				
Property taxes	\$ 80,000	\$ 80,000	\$ 84,324	\$ 4,324
State allocation	10,500	10,500	9,944	(556)
Noxious weed program	40,000	40,000	42,461	2,461
Water Trust Board grant	117,000	117,000	-	(117,000)
Grant-Forest Re-Leaf	-	-	5,945	5,945
Self generated	1,000	1,000	486	(514)
Interest	2,000	2,000	4,138	2,138
Donations	-	-	2,625	2,625
Miscellaneous	1,000	1,000	641	(359)
Total revenues	251,500	251,500	\$ 150,564	\$ (100,936)
Cash balance budgeted	61,782	61,782		
Total revenues and cash balance	<u>\$ 313,282</u>	<u>\$ 313,282</u>		
Expenditures				
Current:				
Personal services	\$ 20,000	\$ 20,000	\$ 20,908	\$ (908)
Travel	3,000	3,000	7,202	(4,202)
Board expense	2,000	2,000	553	1,447
Conservation incentives	35,000	35,000	17,496	17,504
Legal notice/Advertising	-	-	273	(273)
Office supplies and postage	1,000	1,000	2,164	(1,164)
Utilities	4,000	4,000	3,774	226
Professional fee	1,000	1,000	-	1,000
Governmental gross receipts tax	500	500	-	500
Annual meeting	700	700	722	(22)
Information and education	3,000	3,000	2,299	701
Dues and subscriptions	2,000	2,000	2,200	(200)
NMACD convention expense	1,500	1,500	-	1,500
Insurance and bond	1,300	1,300	681	619
Noxious weed program	1,300	1,300	51,889	(6,889)
Project expenses/Re-Leaf	45,000	45,000	6,120	(6,120)
Watershed Grant	-	-	-	115,000
Benevolence	115,000	115,000	-	115,000
Maintenance and repairs	3,000	3,000	566	2,434
Contract labor	2,500	2,500	2,388	112
Capital outlay	-	-	2,178	(2,178)
Debt service	2,000	2,000	5,599	(3,599)
	5,390	5,390	6,580	(1,190)
Total expenditures	<u>\$ 247,890</u>	<u>\$ 247,890</u>	<u>\$ 133,592</u>	<u>\$ 114,298</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, 2006

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). 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, which rely to a significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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 of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 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 \$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	39 years
Building improvements	39 years
Furniture	15 years
Office equipment	5 years
Farm equipment	7 years

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Off-road vehicle	5 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.

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 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.

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

	General Fund	Special Revenue Fund
Non-GAAP revenues (Exhibit 5)	\$ 150,564	\$ 50
Prior year receivables	(4,337)	-
Current year receivables	3,955	
Prior year deferred revenue	3,070	
Current year deferred revenue	(2,288)	-
GAAP revenues (Exhibit 4)	<u>\$ 150,964</u>	<u>\$ 50</u>
Non-GAAP expenditures (Exhibit 5)	\$ 133,592	\$ 1,603
Prior year payable	(6,314)	-
Prior year payroll accrual	(508)	-
Current year reimbursement receivable	(228)	
Current year accounts payable	3,421	-
Current year accrued payroll	664	-
GAAP expenditures (Exhibit 4)	<u>\$ 130,627</u>	<u>\$ 1,603</u>

III. Detailed Notes on all Funds

A. Cash and Investments

Cash in Bank:

As of June 30, 2006, the District has a carrying amount of deposits of \$77,353. The deposits consist of four bank accounts at First Federal Bank with a total bank balance of \$86,917. The difference between the total bank balance of \$86,917 and the carrying amount of \$77,353 is \$9,564 in 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, 2006

The total bank balance of \$86,917 at First Federal Bank consists of the following:

Account <u>Name</u>	Account <u>Type</u>	Demand <u>Deposits</u>
Operational	Checking	\$ 59,237
Weed program	Checking	12,005
ISC loan program	Checking	3,803
Money market	Checking	<u>11,872</u>
Total		86,917
Less: FDIC coverage		<u>(86,917)</u>
Amount uninsured		<u>\$ -</u>

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, 2006, none of the Districts bank balances were exposed to custodial credit risk.

Investments:

As of June 30, 2006, the District had the following investments:

<u>Investment Type</u>	Fair <u>Value</u>	Weighted Average Maturity (<u>Days</u>)
LGIP/A Stable NAV		
Government Investment Pool	\$ 114,579	40
Short-term US Treasuries	\$ <u>1,305</u>	3
Total fair value	<u>\$ 115,884</u>	
Portfolio weighted average maturity		39.6

Interest Rate Risk. The District does not have a deposit policy for interest rate risk. The District informally manages its exposure to declines in fair values by limiting its investment portfolio to securities with a relative short weighted average maturity.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Credit Risk State law limits the District's investments to bonds or negotiable securities of the United States, the State of New Mexico, or a county, municipality or school district that meet certain criteria. The District has no investment policy that would further limit its investment choices. As of August 2006, the Standard & Poor's ratings of the District's investments have been determined to be AAAm.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy that governs how much of its investments may be held by a given counterparty.

B. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Description	Balance		Balance	
	6/30/05	Additions	Deletions	6/30/06
Governmental funds:				
Building	\$ 63,171	\$ -	\$ -	\$ 63,171
Building improvements	17,547	-	-	17,547
Furniture	2,359	-	-	2,359
Farm equipment	1,437	-	-	1,437
Off-road vehicle	-	5,599	-	5,599
Computer equipment	6,267	-	-	6,267
Totals	90,781	5,599	-	96,380
Less Accumulated depreciation:				
Building	7,997	1,620	-	9,617
Building improvements	1,950	450	-	2,400
Furniture	916	157	-	1,073
Farm equipment	1,437	-	-	1,437
Off-road vehicle	-	93	-	93
Computer equipment	3,798	605	-	4,403
	(16,098)	(2,925)	-	(19,023)
Net capital assets	\$ 74,683	\$ 2,674	\$ -	\$ 77,357

The District's depreciation of \$2,925 is all charged to the conservation function.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 7/1/06 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.

The NMFPA 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, 2006 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2007	\$ 6,515	\$ 216	\$ 6,731
June 30, 2008	8,020	164	8,184
June 30, 2009	8,074	110	8,184
June 30, 2010	<u>8,050</u>	<u>56</u>	<u>8,106</u>
Total	<u>\$ 30,659</u>	<u>\$ 546</u>	<u>\$ 31,205</u>

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2006 was as follows:

	Balance 6/30/05	Increases	Decreases	Balance 6/30/06	Amount due within 1 year
Note payable to NMISC	\$ 5,956	\$ -	\$ 1,455	\$ 4,501	\$ -
Note payable to NMFA	<u>32,657</u>	-	<u>6,499</u>	<u>26,158</u>	<u>6,515</u>
Compensated Absences	38,613	-	7,954	30,659	6,515
Totals	<u>\$ 39,244</u>	<u>\$ 2,362</u>	<u>\$ 10,865</u>	<u>\$ 30,741</u>	<u>\$ 6,597</u>

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.

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 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.

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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:

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:	\$4,356,168
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, 2006, the District received no funds through this joint powers agreement.



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

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, 2006 and have issued our report dated March 14, 2007. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations as items 06-1 and 06-2.

A material weakness is a reportable 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 error 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

2113 Warner Circle, Santa Fe, New Mexico 87505-5499
(505) 476-3800 • (800) 432-5517 • Fax (505) 827-3512

www.saa.nm.org

period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. 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 14, 2007

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2006

STATUS OF PRIOR YEAR AUDIT FINDINGS

Finding 05-01 – Uncollateralized Bank Accounts (Modified and Repeated)

CURRENT YEAR AUDIT FINDINGS

Finding 05-01 – Uncollateralized Bank Accounts (Modified and Repeated)

Condition

The District's cash balance on deposit at the bank exceeded the FDIC limit of \$100,000 on nineteen days during February 2006. The balance ranged as high as \$103,283 and did not stay below \$100,000 until the bank posted the checks that cleared on March 1, 2006. As a result of the previous fiscal year's financial audit, the District contacted the bank and requested that collateral be posted as required by New Mexico law. On March 14, 2006, the bank posted the collateral required in order to conform to the Public Money Statutes. The District was not under collateralized as of June 30, 2006.

Criteria

The Public Money statutes, Section 6-10-17 NMSA 1978, require 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 February 1, 2006 with the deposit of two wire transfers of funds totaling \$11,500. The bank did not post collateral because it was not monitoring the District's accounts for purposes of collateralization. The bank did not have the District's 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, 2006

Recommendation

The District should continue to monitor on a monthly basis the balances on deposit at the bank and the amounts of collateral posted by the bank to assure continued conformance with the Public Money Statutes.

District's Response

The bank has been notified and the District has complied with the ruling.

06-1 – Grant Management

Condition

The District had five grants from Federal and State agencies this fiscal year. Grant agreements, payment requests, and other correspondence with grantors have been signed by an employee of the District and not by a member of the Board of Supervisors.

Criteria

Section 73-20-41 NMSA 1978 of the Soil and Water Conservation District Act defines the powers and duties of the Board of Supervisors as the group in control of the District. This section empowers the Board of Supervisors to hire employees to perform certain duties. Section 73-20-41 NMSA 1978 states: a district, by and through its supervisors, is authorized to ... contract, convey and make and execute other instruments and documents necessary or convenient to the exercise of district powers. This section appears to require the Board of Supervisors to personally handle contracting and executing agreements and instruments.

Effect

The District could become obligated to a grantor or a third party without the Board of Supervisors' knowledge or approval.

Cause

The employee is not aware of the provisions of the Soil and Water Conservation District Act quoted in the criteria.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2006

Recommendation

All grant agreements, payment requests, and other official correspondence related to grants and contracts must be signed by a member of the Board of Supervisors, preferably the Chairman or the Secretary-Treasurer.

District's Response

Board action now requires the Weed Coordinator to have all accounts on grants signed by a member of the District Board. This includes grant agreements, payment requests, and other official correspondence related to grants and contracts.

06-2 – Grant Accounting

Condition

The District has not maintained a record of the cash requests submitted and payments received on each of the grants awarded to the District.

Criteria

Section 6-6-3 NMSA 1978 of the Local Government Finances statutes requires the District to develop and maintain complete and accurate records of its financial transactions. Accounting for grant funding requires the District to maintain additional records so that the District will know at any time how much of each grant has been spent, how much is unspent, and the time period available to spend the remaining grant money. The record of cash requests submitted and payments received must be derived from information in the District's general ledger and must be reconcilable to the general ledger.

Effect

The District could overspend a grant or could leave grant funds unspent at the end of the period of availability and thus not reap the full benefits of the grant award.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2006

Cause

The District has not received significant funding from grants in the past and thus was unaware of the additional accounting that would be necessary in order to properly monitor and manage its grant funding.

Recommendation

The District should update the records for grant payment requests submitted and payments received that were developed during the audit of the fiscal year ending June 30, 2006. Also, for any new grant received, a similar record of payment requests and payments received should be established.

District's Response

The District is updating records for all grant payment requests, including grant allocations received, plus payments made pertaining to each individual account. Each grant will have its own bookkeeping record for better documentation & clarification purposes. As of this date, a new QuickBooks system has been purchased and will be installed shortly.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT

EXIT CONFERENCE
JUNE 30, 2006

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 May 31, 2007, an exit conference was held at the District office in Capitan, 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.