



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

CAPITAN, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2008

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



STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Table of Contents
 For the Year Ended June 30, 2008

	<u>Page</u>
Official Roster.....	3
Independent Auditor's Report.....	4
FINANCIAL SECTION	
Basic Financial Statements	
Government Wide Financial Statements	
Statement of Net Assets.....	5
Statement of Revenues, Expenses, and Changes in Net Assets.....	6
Fund Financial Statements	
Government Funds - Balance Sheet.....	7
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	8
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	9
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	10
GENERAL FUND	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	11
ISC PROGRAM FUND	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	12
Notes to Financial Statements.....	13-21
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>	22-23
Findings and Responses	24

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Official Roster
June 30, 2008

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
----------------	------------------

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, 2008, 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, 2008, 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, 2008

ASSETS	
Current Assets	
Cash in Banks	\$ 81,567
Investments	126,120
Total Current Assets	<u>207,687</u>
Non-current Assets	
Capital Assets	
Buildings & Improvements	119,933
Equipment & Vehicles	15,662
Less Accumulated Depreciation	(25,677)
Total Non-current Assets	<u>109,918</u>
Total Assets	<u>317,605</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Current Portion of Long-term Debt	<u>6,548</u>
Total Current Liabilities	<u>6,548</u>
Non-current Liabilities	
Loans Payable	<u>6,564</u>
Total Non-current Liabilities	<u>6,564</u>
Total Liabilities	<u>13,112</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	96,806
Unrestricted	<u>207,687</u>
Total Net Assets	<u>\$ 304,493</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, 2008

Program Expense:

Conservation		
Personnel Services	\$	45,078
Travel		12,203
Board Expense		387
Conservation Incentives		40,046
Legal Notice/Advertising		1,397
Office Supplies & Postage		1,364
Utilities		4,249
Annual Meeting		605
Information & Education		1,570
Dues & Subscriptions		1,301
NMACD Convention Expense		571
Insurance & Bond		696
Benevolence		392
Maintenance & Equipment		11,757
Miscellaneous		961
Interest		52
Depreciation		3,006
Total Program Expenses		<u>125,635</u>

Program Revenues:

Operating Grants		69,920
Donations		3,850
Miscellaneous		546
Total Program Revenues		<u>74,316</u>

Net Program (Expense) Revenue (51,319)

General Revenues:

Property Taxes		93,364
State Allocation		10,980
Interest Income		6,053
Total General Revenues		<u>110,397</u>

Change in Net Assets 59,078

Net Assets at Beginning of Year 245,415

Net Assets at End of Year \$ 304,493

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, 2008

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 81,567	\$ 0	\$ 81,567
Investments	<u>126,120</u>	<u>0</u>	<u>126,120</u>
Total Assets	<u>\$ 207,687</u>	<u>\$ 0</u>	<u>\$ 207,687</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 0	\$ 0	\$ 0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances			
Unreserved Reported In:			
General Fund	207,687	0	207,687
Special Revenue Fund	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>207,687</u>	<u>0</u>	<u>207,687</u>
Total Liabilities and Fund Balances	<u>\$ 207,687</u>	<u>\$ 0</u>	<u>\$ 207,687</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, 2008

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

Total Fund Balance - Governmental Funds		\$	207,687
Capital assets used in governmental activities are not			
The cost of capital assets	\$	135,595	
Accumulated depreciation is		<u>(25,677)</u>	109,918
Long-term and certain other liabilities, including bonds			
Notes Payable			<u>(13,112)</u>
Total net assets - governmental activities		\$	<u><u>304,493</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, 2008

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Property Taxes	\$ 93,364	\$ 0	\$ 93,364
State Allocation	10,980	0	10,980
Operating Grant-SWCD	36,378	0	36,378
Operating Grant-Weed Program	33,542	0	33,542
Interest Income	6,053	0	6,053
Donations	3,850	0	3,850
Miscellaneous	546	0	546
Total Revenues	184,713	0	184,713
Expenditures			
Current			
Personnel Services	45,078	0	45,078
Travel	12,203	0	12,203
Board Expense	387	0	387
Conservation Incentives	40,046	0	40,046
Legal Notice/Advertising	1,397	0	1,397
Office Supplies & Postage	1,364	0	1,364
Utilities	4,249	0	4,249
Annual Meeting	605	0	605
Information & Education	1,570	0	1,570
Dues & Subscriptions	1,301	0	1,301
NMACD Convention Expense	571	0	571
Insurance & Bond	696	0	696
Benevolence	392	0	392
Maintenance & Equipment	11,757	0	11,757
Miscellaneous	961	0	961
Debt Service			
Principal	6,531	3,010	9,541
Interest	25	27	52
Total Expenditures	129,133	3,037	132,170
Excess (Deficiency) of Revenues Over Expenditures	55,580	(3,037)	52,543
Fund Balances at Beginning of Year	152,107	3,037	155,144
Fund Balance End of Year	\$ 207,687	\$ 0	\$ 207,687

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, 2008

Excess (Deficiency) of Revenues Over Expenditures \$ 52,543

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

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	\$	(3,006)	
Capital Outlays		0	(3,006)

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

9,541

Changes in Net Assets of Governmental Activities

\$ 59,078

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, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Property Taxes	\$ 90,000	\$ 90,000	\$ 93,364	\$ 3,364
State Allocation	12,000	12,000	10,980	(1,020)
Operating Grant-SWCD	0	0	36,378	36,378
Operating Grant-Weed Program	52,500	52,500	33,541	(18,959)
Project Material Sales	1,000	1,000	0	(1,000)
Interest Income	7,000	7,000	6,053	(947)
Donations	0	0	3,850	3,850
Miscellaneous	1,000	1,000	546	(454)
Total Revenues	<u>163,500</u>	<u>163,500</u>	<u>184,712</u>	<u>21,212</u>
Expenditures				
Personnel Services	20,000	45,000	45,078	(78)
Travel	4,000	12,000	12,203	(203)
Board Expense	2,000	2,000	387	1,613
Conservation Incentives	40,000	40,000	40,046	(46)
Legal Notice/Advertising	1,500	1,500	1,397	103
Office Supplies & Postage	1,500	1,500	1,364	136
Utilities	5,500	5,500	4,249	1,251
Annual Meeting	1,500	1,500	605	895
Information & Education	3,000	3,000	1,570	1,430
Dues & Subscriptions	3,500	3,500	1,300	2,200
NMACD Convention Expense	1,500	1,500	571	929
Insurance & Bond	1,300	1,300	696	604
Benevolence	3,000	3,000	392	2,608
Maintenance & Equipment	2,000	2,000	11,757	(9,757)
Loan Payment				
Principal	7,000	7,000	6,531	469
Interest	0	0	25	(25)
Miscellaneous	2,500	2,500	961	1,539
Total Operating Expenses	<u>99,800</u>	<u>132,800</u>	<u>129,132</u>	<u>2,129</u>
Excess (Deficiency) of Revenues Over Expenditures	63,700	30,700	55,580	24,880
Cash Balance Beginning of Year	<u>152,107</u>	<u>152,107</u>	<u>152,107</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 215,807</u>	<u>\$ 182,807</u>	<u>\$ 207,687</u>	<u>\$ 24,880</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ <u>55,580</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ <u>55,580</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, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Interest Income	\$ 50	\$ 50	\$ 0	\$ (50)
Total Revenues	<u>50</u>	<u>50</u>	<u>0</u>	<u>(50)</u>
Expenditures				
Debt Service				
Principal	27	27	27	0
Interest	3,010	3,010	3,010	0
Total Expenditures	<u>3,037</u>	<u>3,037</u>	<u>3,037</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,987)	(2,987)	(3,037)	(50)
Cash Balance Beginning of Year	<u>3,037</u>	<u>3,037</u>	<u>3,037</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 0</u>	<u>\$ (50)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ (3,037)	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ (3,037)</u>	

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Notes to the Financial Statements
 June 30, 2008

NOTE B: CASH AND INVESTMENTS

Cash and Investments Cash in Bank:

First Federal

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
Operational	Checking	\$ 23,082	\$ 5,004
LCCWM	Checking #	41,211	36,191
ISC loan program	Checking	0	0
CMA	Savings	40,372	40,372
	Total	104,665	\$ 81,567
	Less: FDIC coverage	(76,098)	
	Amount uninsured	\$ 28,567	

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	\$ 126,120	\$ 126,120	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

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Notes to the Financial Statements
 June 30, 2008

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 2.4079%.

NOTE C: CAPITAL ASSETS

Capital Assets Balances and Activity for the Year Ended June 30, 2008, is as follows:

	<u>Balance 6/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/08</u>
Governmental Activities				
Capital Assets, being Depreciated				
Buildings & Improvements	119,933	0	0	119,933
Equipment & Vehicles	<u>15,662</u>	<u>0</u>	<u>0</u>	<u>15,662</u>
Total Capital Assets, being Depreciated	<u>135,595</u>	<u>0</u>	<u>0</u>	<u>135,595</u>
Less Accumulated Depreciation				
Buildings & Improvements	13,616	1,599	0	15,215
Equipment & Vehicles	<u>9,055</u>	<u>1,407</u>	<u>0</u>	<u>10,462</u>
Total Accumulated Depreciation	<u>22,671</u>	<u>3,006</u>	<u>0</u>	<u>25,677</u>
Capital Assets, net	<u>\$ 112,924</u>	<u>\$ (3,006)</u>	<u>\$ 0</u>	<u>\$ 109,918</u>

Depreciation expense was charged to governmental activities as follows:

Conservation	\$ <u>3,006</u>
Total depreciation expenses	\$ <u><u>3,006</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.

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2008

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

Year Ended	Principal	Interest	Total
2009	6,548	25	6,573
2010	6,564	8	6,572
Total	\$ 13,112	\$ 33	\$ 13,145

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
Notes Payable:					
NMISC	\$ 3,010	\$ 0	\$ 3,010	\$ 0	\$ 0
NMFA	19,643	0	6,531	13,112	6,548
Total Long-Term Liabilities	\$ 22,653	\$ 0	\$ 9,541	\$ 13,112	\$ 6,548

The special revenue has been used to liquidate long-term liabilities in prior years.

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2008

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:	\$4,566,291
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, 2008, the District received no funds through this joint powers agreement.



De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124
(505) 253-4313

**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 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 fund of the Upper Hondo Soil & Water District (District) as of and for the year ended June 30, 2008 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 in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide 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.

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, a 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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 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 the audit, and that, 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.

This report is intended solely for the information and use of the administration, the board members, the Office of the State Auditor, the New Mexico State Legislature and its committees, and the New Mexico Department of Finance and Administration-Local Government Division 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
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Findings and Responses
June 30, 2008

Prior Year Audit Findings

07-01 Late Audit Report

Status
Resolved

Current Year Audit Findings

None

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.