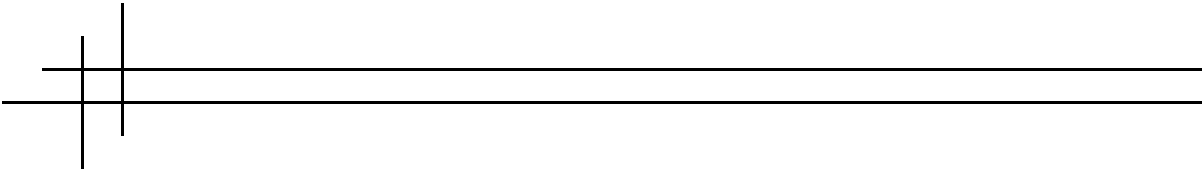


STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
CAPITAN, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2009

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



STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
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STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Official Roster
June 30, 2009

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

(575) 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 budgetary comparisons for the general fund and major special revenue fund of Upper Hondo Soil & Water Conservation District, (District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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, 2009, and the respective changes in financial position, thereof and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2010, on our consideration of the District's internal control over financial reporting and on 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 the combining and individual financial statements and budgetary comparisons presented as supplemental information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

De'Aun Willoughby CPA PC

November 2, 2010

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Government-Wide Statement of Net Assets
 June 30, 2009

ASSETS	
Current Assets	
Cash in Banks	\$ 227,516
Loan to Carrizozo SWCD	3,000
Total Current Assets	<u>230,516</u>
Non-current Assets	
Capital Assets	162,129
Less Accumulated Depreciation	<u>(30,725)</u>
Total Non-current Assets	<u>131,404</u>
Total Assets	<u>361,920</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	18,594
Accrued Payroll	1,037
Current Portion of Long-term Debt	<u>11,951</u>
Total Current Liabilities	<u>31,582</u>
Non-current Liabilities	
Loans Payable	<u>21,545</u>
Total Non-current Liabilities	<u>21,545</u>
Total Liabilities	<u>53,127</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	97,908
Unrestricted	<u>210,885</u>
Total Net Assets	<u>\$ 308,793</u>

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

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Government-Wide Statement of Activities
 For the Year Ended June 30, 2009

Program Expense:	
Conservation	
Personnel Services	\$ 59,391
Conservation Incentives	2,441,837
Travel	11,241
Accountant	898
Audit	3,212
Board Expense	1,140
Legal Notices & Advertising	796
Office Supplies & Postage	2,488
Utilities	5,083
Annual Meeting	1,874
Dues & Subscriptions	2,233
Insurance & Bond	252
Janitorial	1,642
Maintenance & Equipment	3,751
Miscellaneous	736
Depreciation	5,048
Total Program Expenses	<u>2,541,622</u>
Program Revenues:	
Operating Grants	2,430,782
Miscellaneous	3,336
Total Program Revenues	<u>2,434,118</u>
Net Program (Expense) Revenue	<u>(107,504)</u>
General Revenues:	
Property Taxes	98,302
State Allocation	10,751
Interest Income	2,751
Total General Revenues	<u>111,804</u>
Change in Net Assets	4,300
Net Assets at Beginning of Year	<u>304,493</u>
Net Assets at End of Year	<u>\$ 308,793</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
Balance Sheet
June 30, 2009

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 211,521	\$ 15,995	\$ 227,516
Loan to Carrizozo SWCD	3,000	0	3,000
Total Assets	<u>\$ 214,521</u>	<u>\$ 15,995</u>	<u>\$ 230,516</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 2,599	\$ 15,995	\$ 18,594
Accrued Payroll	1,037	0	1,037
Total Liabilities	<u>3,636</u>	<u>15,995</u>	<u>19,631</u>
Fund Balances			
Reserved in Special Revenue	0	0	0
Unreserved in General Fund	210,885	0	210,885
Total Fund Balances	<u>210,885</u>	<u>0</u>	<u>210,885</u>
Total Liabilities and Fund Balances	<u>\$ 214,521</u>	<u>\$ 15,995</u>	<u>\$ 230,516</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, 2009

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balance - Governmental Funds		\$	210,885
Capital assets used in governmental activities are not			
The cost of capital assets	\$	162,129	
Accumulated depreciation is		<u>(30,725)</u>	131,404
Long-term and certain other liabilities, including loans payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year end consist of :			
Notes Payable			<u>(33,496)</u>
Total net assets - governmental activities		\$	<u><u>308,793</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, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Property Taxes	\$ 98,302	\$ 0	\$ 98,302
State Allocation	10,751	0	10,751
Operating Grant-Weed Program	66,332	0	66,332
Operating Grant-BLM	24,200		24,200
Conservation Grant-Water Shed	0	2,340,250	2,340,250
Interest Income	2,751	0	2,751
Donations	2,030	0	2,030
Miscellaneous	1,306	0	1,306
Total Revenues	205,672	2,340,250	2,545,922
Expenditures			
Current			
Personnel Services	59,391	0	59,391
Conservation Incentives	101,587	2,340,250	2,441,837
Travel	11,241	0	11,241
Accountant	898	0	898
Audit	3,212	0	3,212
Board Expense	1,140	0	1,140
Legal Notices & Advertising	796	0	796
Office Supplies & Postage	2,488	0	2,488
Utilities	5,083	0	5,083
Annual Meeting	1,874	0	1,874
Dues & Subscriptions	2,233	0	2,233
Insurance & Bond	252	0	252
Janitorial	1,642	0	1,642
Maintenance & Equipment	3,751	0	3,751
Miscellaneous	736	0	736
Capital Outlay	26,534	0	26,534
Debt Service			
Principal	6,548	0	6,548
Total Expenditures	229,406	2,340,250	2,569,656
Excess (Deficiency) of Revenues Over Expenditures	\$ (23,734)	\$ 0	\$ (23,734)

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, 2009

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Other Financing Sources (Uses)			
Loan Proceeds	\$ 26,932	\$ 0	\$ 26,932
Total Other Financing Sources (Uses)	<u>26,932</u>	<u>0</u>	<u>26,932</u>
Net Change in Net Assets	3,198	0	3,198
Fund Balances at Beginning of Year	<u>207,687</u>	<u>0</u>	<u>207,687</u>
Fund Balance End of Year	<u>\$ 210,885</u>	<u>\$ 0</u>	<u>\$ 210,885</u>

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

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
 To the Statement of Activities
 June 30, 2009

Excess (Deficiency) of Revenues Over Expenditures \$ (23,734)

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.

Depreciation expense	\$ (5,048)	
Capital Outlays	<u>26,534</u>	21,486

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 6,548

Changes in Net Assets of Governmental Activities \$ 4,300

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, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Property Taxes	\$ 94,000	\$ 94,000	\$ 98,302	\$ 4,302
State Allocation	22,000	22,000	10,751	(11,249)
Operating Grant-Weed Program	30,000	60,000	66,332	6,332
Operating Grant-BLM	0	24,200	24,200	0
Interest Income	0	0	2,751	2,751
Donations	0	0	2,030	2,030
Miscellaneous	4,000	40,000	1,306	(38,694)
Total Revenues	150,000	240,200	205,672	(34,528)
Expenditures				
Accountant	0	0	898	(898)
Advertising	1,000	1,000	796	204
Annual Meeting	1,500	1,500	1,049	451
Audit	0	0	3,212	(3,212)
Bank Charges	0	0	85	(85)
Board Expense	2,000	2,000	1,140	860
Conservation Incentives	30,568	30,568	10,733	19,835
BLM	0	24,200	10,379	13,821
Weed Program	30,000	60,000	51,830	8,170
Convention Expenses	1,500	1,500	808	692
Dues & Subscriptions	3,500	3,500	2,233	1,267
Education	11,000	11,000	625	10,375
Employee Salaries	60,000	60,000	58,176	1,824
Equipment Expense	6,000	6,000	1,426	4,574
Fees	25	25	25	0
Insurance & Bond	1,300	1,300	252	1,048
Janitorial	0	0	1,642	(1,642)
Office Supplies & Postage	1,500	1,500	1,983	(483)
Repairs & Maintenance	4,500	4,500	2,325	2,175
Travel	7,000	7,000	11,056	(4,056)
Utilities	5,500	5,500	5,083	417
Capital Outlay	6,000	6,000	26,534	(20,534)
Debt Service				0
Principal	6,548	10,037	6,548	3,489
Loan to Carrizozo SWCD	0	0	3,000	(3,000)
Total Operating Expenses	179,441	237,130	201,838	35,292
Excess (Deficiency) of Revenues Over Expenditures	\$ (29,441)	\$ 3,070	\$ 3,834	\$ 764

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, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Cash Balance Beginning of Year	\$ 207,687	\$ 207,687	\$ 207,687	\$ 0
Cash Balance End of Year	\$ 178,246	\$ 210,757	\$ 211,521	\$ 764
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 3,834	
Net Change in Accounts Payable			(2,599)	
Net Change in Accrued Payroll			(1,037)	
Loan to Carrizozo SWCD			3,000	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ 3,198	

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

UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
SPECIAL REVENUE- PROGRAM
Statement of Revenues, Expenditures, and Changes in Cash Balance-
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Federal Grant	\$ 0	\$ 0	\$ 2,356,245	\$ 2,356,245
Total Revenues	<u>0</u>	<u>0</u>	<u>2,356,245</u>	<u>2,356,245</u>
Expenditures				
Water Shed Project	<u>0</u>	<u>0</u>	<u>2,340,250</u>	<u>(2,340,250)</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>2,340,250</u>	<u>(2,340,250)</u>
Excess (Deficiency) of Revenues Over Expenditures	0	0	15,995	15,995
Cash Balance Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,995</u>	<u>\$ 15,995</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 15,995	
Net Change in Accounts Payable			<u>(15,995)</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 0</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, 2009

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.

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2009

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.

Assets, Liabilities, Net Assets and Fund Balance

Cash and Investments

The District's cash consists of demand deposits.

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2009

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

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.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2009

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.

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).

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June 30, 2009

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.

NOTE B: DEPOSITS AND INVESTMENTS

City Bank

<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
General Funds	Checking	\$ 4,723	\$ 4,917
Lincoln County CWMA	Checking	51,767	51,767
Emergency Watershed	Checking	15,995	15,995
Reserve Account	Checking	154,837	154,837
	Total	<u>227,322</u>	<u>\$ 227,516</u>
	Less: FDIC coverage	<u>(227,322)</u>	
	Amount uninsured	<u>\$ 0</u>	

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, 2009, none of the Districts bank balances were exposed to custodial credit risk.

NOTE C: CAPITAL ASSETS

Capital Assets Balances and Activity for the Year Ended June 30, 2009, is as follows:

	<u>Balance 6/30/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/09</u>
Governmental Activities				
Capital Assets, being Depreciated				
Buildings & Improvements	119,933	0	0	119,933
Equipment & Vehicles	15,662	26,534	0	42,196
Total Capital Assets, being Depreciated	<u>135,595</u>	<u>26,534</u>	<u>0</u>	<u>162,129</u>
Less Accumulated Depreciation				
Buildings & Improvements	15,215	1,599	0	16,814
Equipment & Vehicles	10,462	3,449	0	13,911
Total Accumulated Depreciation	<u>25,677</u>	<u>5,048</u>	<u>0</u>	<u>30,725</u>
Capital Assets, net	<u>\$ 109,918</u>	<u>\$ 21,486</u>	<u>\$ 0</u>	<u>\$ 131,404</u>

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Depreciation expense was charged to governmental activities as follows:

Conservation	\$ 5,048
Total depreciation expenses	<u>\$ 5,048</u>

Note D: LONG TERM DEBT

Notes payable represent loan balances due the New Mexico Finance Authority for the purchase of the office building and a vehicle.

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

The second NMFA loan is repayable in annual installments over 5 years at the interest rate of zero percent. The loan amount was \$26,932. The annual payments are \$5,378 and the loan matures in 2014.

Changes in Long-term Liabilities

Long-term debt activity for the year ended June 30, 2009 was as follows:

	Balance 6/30/08	Additions	Reductions	Balance 6/30/09	Amounts Due Within One Year
Notes Payable:					
NMFA-Building	\$ 13,112	\$ 0	\$ 6,548	\$ 6,564	\$ 6,564
NMFA-Vehicle	0	26,932	0	26,932	5,387
Total Long-Term Liabilities	<u>\$ 13,112</u>	<u>\$ 26,932</u>	<u>\$ 6,548</u>	<u>\$ 33,496</u>	<u>\$ 11,951</u>

The annual debt service requirements to maturity at June 30, 2009 are as follows:

Year Ended	Principal
2010	11,948
2011	5,387
2012	5,387
2013	5,387
2014	5,387
Total	<u>\$ 33,496</u>

The general fund is used to liquidate long-term liabilities.

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UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
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June 30, 2009

Note E: OTHER INFORMATION

A. Employee Benefits

Plan Description. Substantially the District's employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 7% of their gross salary. The District is required to contribute 7% for employees of the gross covered salary. The contribution requirements of plan members and the City are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The total contributions to PERA for the fiscal years ending June 30, 2009 and 2008 were \$4,862 and \$2,746, respectively, which equal the amount of the required contributions for each fiscal year. The District offered PERA in October of 2007.

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

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June 30, 2009

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, 2009, the District received no funds through this joint powers agreement.

FEDERAL COMPLIANCE

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2009

Federal Agency/Pass Through Grantor/Program Title	Federal CFDA Number	Total Federal Awards Expended
<u>U. S. Department of Agriculture</u>		
Pass-Through Program from:		
Natural Resource Conservation Service		
Watershed Protection and Flood Prevention	10.904	\$ <u>2,340,250</u>
		<u>2,340,250</u>
<u>U.S. Department of Interior</u>		
Direct Program		
Invasive and Noxious Plant Management	15.230	<u>24,200</u>
		<u>24,200</u>
Total Federal Assistance		\$ <u><u>2,364,450</u></u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

Note 1: Significant Accounting Policies used in preparing the Schedule of Expenditure of Federal Awards

The modified accrual basis was used to prepare the Schedule of Expenditures of Federal Awards

Note 2: Insurance Requirements

There are no insurance requirements on the federal awards disclosed on the Schedule of Expenditures of Federal Awards

Note 3: Loans or Loan Guarantees

There were no loans or loan guarantees outstanding at year end.

De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124
(575) 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 CONSERVATION DISTRICT

Mr. Balderas and Members of the Board

We have audited the financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue fund of Upper Hondo Soil & Water conservation District, (District), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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 it's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 9-1, 9-2, 9-3 and 9-4.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration, the board members, the Office of the State Auditor, the New Mexico State Legislature, federal awarding agencies. 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

November 2, 2010

De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(575) 253-4313

Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited Upper Hondo Soil & Water Conservation District's (District) compliance with the types of compliance requirements described in the OMB A-133 Compliance Supplement that could have a direct and material effect on the District's major federal program for the year ended June 30, 2009. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on it's major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We identified one deficiency in internal control over compliance that we consider to be material weaknesses, as defined above and listed in the accompanying schedule of findings and questioned cost as 9-1.

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, federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

De'Aun Willoughby CPA PC

November 2, 2010

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting

- * Significant deficiencies __ yes X no
- * Significant deficiencies(s) identified that are not considered to be material weaknesses? X yes __ none reported
- Noncompliance material to financial statements noted? __ yes X no

Federal Awards

Internal control over major programs:

- * Significant deficiencies __ yes X no
- * Significant deficiency(s) identified that are not considered to be material weaknesses? X yes __ none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 __ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
10.904	Watershed Protection and Flood Prevention

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low risk auditee __ yes X no

Federal Award Findings

Prior Year Audit Findings

There were no prior year audit finding due to the fact that the Distict was not a single audit.

Current Year Audit Findings

9-1 Late Filed Data Collection Form and Reporting Package to the Federal Clearinghouse

Condition

The auditors have not received the email from the Federal Clearing House notifying us that the data collection form has been accepted.

Criteria

As required by OMB Circular A-133.320, the reporting package is due nine months after the fiscal year end.

Effect

Late report filing is an instance of noncompliance in the District's internal controls over financial reporting.

Cause

The auditors completed the data collection form on 7/24/09 online as required. We emailed the District with instructions to complete their part of the process. November 2, 2009 we accessed the system and it still says the auditee has not certified form SF-SAC.

Recommendation

The data collection form and reporting package should be completed timely.

Response

The District will check go online and complete the process immediately.

Financial Statement Audit Findings

Prior Year Audit Findings

There were no prior year audit findings.

Current Year Audit Findings

09-2 Late Audit Report

Condition

The audit report was filed after the due date. The report was submitted on 11/4/10 to the State Auditor's Office.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Criteria

According to the State Auditor Rule 2.2.2.9 (d), the audit report due date for the District is December 1, 2009.

Cause

The District did not realize they were a single audit this audit year. The contract with the IPA was amended causing the report to be late.

Effect

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

Recommendation

The District should make every effort to hire an auditor and complete their audit timely and be aware what the audit requirements are.

Response

We will make an effort to solicit an auditor and complete our audit timely and know what the audit requirements are.

9-3 Preparation of Financial Statements

Condition

The individuals responsible for the accounting functions for the District did not prepare the district's financial statements. The Financial statements were prepared by the auditor.

Criteria

Statement on Accounting Standards (SAS) 112, Communication of Internal Control Related Matters Identified in an Audit, requires that management clearly accept responsibility for preparing all financial information and company's financial statements.

Cause

Individuals responsible for the accounting and reporting functions for the District have not received training relating to the preparation of the District's financial statements in accordance with GASB (Governmental Accounting Standards Board) Statement No 34 and subsequent pronouncements.

Effect

Individuals, without the aid of its auditors, are unable to accurately prepare the District's financial statements in accordance with the accounting standards with the regard to apply generally accepted accounting principals.

Recommendation

We recommend the District's accounting management receive training relating to the preparation of the District's financial statements in accordance with generally accepted accounting principles. This would give the accounting management responsible for the accounting and reporting functions the skills and knowledge to apply generally accepted accounting principals to the financial statements.

STATE OF NEW MEXICO
UPPER HONDO SOIL & WATER CONSERVATION DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Response

Management will continue to depend on the auditor to prepare the financial statements.

9-4 Budget

Condition

The district has maintained expenditures at the function level in which actual expenditures exceeded budgetary authority in the following fund:

	<u>Amount</u>
Special Revenue Program	
Water Shield Project	(2,340,250)

Criteria

Sound financial management and state regulation 6.20.2.9 (A), NMAC and state statutes 22-8-5 through 22-8-12.2, NMSA 1978, require that budgets not be exceeded at the legal level of control. For School District's, the expenditure function is the legal level of control.

Cause

The District did not make the appropriate budgetary adjustments requests and transfers to the funds mentioned in the condition, which would alleviate over-expenditure within the functions prior to the year end.

Effect

As a result, the district is in non compliance with New Mexico law, and the control established by the use of budgets has been compromised. Continued over-expenditure of budgeted balances may result in unnecessary usage of operating funds to absorb over-expenditures.

Recommendation

The District must establish a policy of budgetary review at year-end, and make the necessary budget adjustments.

Response

We thought we were the fiscal agent and that the funds just flowed through us. We didn't know we needed to budget them.

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 November 2, 2010. Those present were Preston Stone, Chairperson, Gaylon Herrera, Program Director, Stephanie Bason, Weed Coordinator and De'Aun Willoughby, CPA.