

**STATE OF NEW MEXICO
UPPER HONDO
SOIL AND WATER CONSERVATION DISTRICT
FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2011
(With Independent Auditor's Report Thereon)**

State of New Mexico
Upper Hondo Soil and Water Conservation District
Table of Contents
June 30, 2011

	<u>Page</u>
Introductory Section	
Table of Contents	1
Official Roster	2
Financial Section	3
Independent Auditor's Report	4
Basic Financial Statements:	
Statement of Net Assets	5
Statement of Activities	6
Fund Financial Statements	
Balance Sheet - Governmental Funds	7
Reconciliation of the Balance Sheet to Statement of Net assets	8
Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds	9
Reconciliation of the Statement of Activities to the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	10
Statement of Revenues and Expenditures-Budget and Actual(Non-GAAP Budgetary Basis) General and Special Revenue Funds	11
Notes to the Financial Statements	12
Supplemental Information:	
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	21
Schedule of Findings, Recommendations, Responses and Other Disclosures	24

**State of New Mexico
Upper Hondo Soil and Water Conservation District
Official Roster
June 30, 2011**

Board of Supervisors

Position

Preston Stone

Chairperson

Jim Cooper

Vice-Chairperson

Scott Daniel

Secretary/Treasurer

Robert Runnels

Supervisor

Stan Thomas

Supervisor

Clark Taylor

Supervisor

David Cox

Supervisor

District Personnel

Gaylon Herrera

Program Director

Financial Section

**Dan Austin CPA, PC
700 Mechem Drive Ste 15
Ruidoso, NM 88345**

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Chairperson, Members of the Board of Supervisors
Upper Hondo Soil & Water Conservation District
Capitan, New Mexico

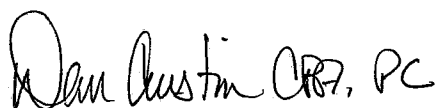
We have audited the accompanying financial statements of the governmental activities, each major fund and the respective budgetary comparisons and the aggregate remaining fund information of the Upper Hondo Soil and Water Conservation District (District) as of and for the year ended June 30, 2011, which 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, each major fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position, thereof and the budgetary comparisons for major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 23, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The District has not presented the Management Discussion and Analysis that the Government 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.



October 23, 2011

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 351,184
Loans Receivable	1,000
Capital assets, Net	<u>116,080</u>
 Total assets	 <u>468,264</u>
 Liabilities	
Current Liabilities	
Accounts Payable	629
Accrued Payroll	1,350
Current Long-Term Debt	18,823
Noncurrent liabilities:	
Long-Term Debt	<u>120,074</u>
 Total liabilities	 <u>140,876</u>
 Net Assets	
Invested in capital assets, net of related debt	122,739
Restricted for Conservation Projects	123,749
Unrestricted	<u>80,900</u>
 Total Net Assets	 <u><u>\$ 327,388</u></u>

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

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activites
Program Expenses:	
Administration	\$ 199,966
Depreciation	7,662
Conservation Programs	767,831
Total program expenses	975,459
Program Revenues:	
Charges for services	222
State operating grants and contracts	614,878
Federal operating grants and contracts	75,000
Other operating grants and contracts	66,828
Total program revenues	756,928
Net program (expense) revenue	(218,531)
General Revenues:	
State appropriation	10,723
Property taxes	214,796
Interest	2,057
Total general revenues	227,576
Change in net assets	9,045
Net assets at beginning of year	318,343
Net assets at end of year	\$ 327,388

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund
Assets	
Cash and cash equivalents	\$ 351,184
Loans Receivable	1,000
Total assets	352,184
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	629
Accrued Payroll	1,350
Total liabilities	1,979
Fund balance:	
Restricted for Conservation Grants	123,749
Unassigned	226,456
Total fund balance	350,205
Total liabilities and fund balance	\$ 352,184

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

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS-
TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Amounts reported for governmental activities in the Statement of Net Assets are different from the way they are reported in the Balance Sheet - Governmental Funds as follows:

Fund Balance - Balance Sheet - Government Funds	\$ 350,205
Capital Assets not reported in the government funds, and are reported net of accumulated depreciation	116,080
Debt principal not recorded in the government funds and reported in the Statement of net Assets	<u>(138,897)</u>
Net Assets - Statement of Net Assets	<u>\$ 327,388</u>

The notes to the financial payments are an intregal part of the financial

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund
Revenues	
Mill Levy	\$ 214,796
State Allocation	10,723
Operating Grant -Weed Program	66,828
Operating Grant -BLM	-
Operating Grant - NWWF	-
Operating Grant - Water Trust Board	614,878
Loan Proceeds-Water Trust Board	50,000
Federal Grant - Emergency Watershed Prot.	75,000
Loan Repayments	222
Donations	-
Miscellaneous Revenue	-
Interest Income	2,057
Total revenues	1,034,504
Expenditures	
Current:	
Accountant	1,354
Advertising	1,570
Annual Meeting	854
Audit	5,356
Bank Charges	143
Benevolence	2,076
BLM Projects	8,860
Board Expense	10,103
Bond	-
Building Maintenance	2,371
Conservation Incentives	26,765
Education	230
Personnel	107,451
Professional Fees	11,780
Equipment Maintenance	3,969
Hondo Garden Project	-
Insurance	1,182
Membership and Dues	2,714
NMACD Convention	-
NMFA Payments	5,387
Office Supplies	2,894
Operations	-
Subdivision Reviews	-
Travel	5,795
Utilities	4,499
Web Site	-
Watershed Project Expense	695,584
Weed Program	72,247
Total expenditures	973,184
Excess (Deficiency) of Revenues Over Expenditures	61,320
Other Financing Sources (Uses)	
Other Expense	-
Net Other Financing Sources (Uses)	-
Net Change in Fund Balance	61,320
Fund balance beginning of year as reported	288,885
Fund balance end of year	\$ 350,205

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES-
AND CHANGES IN FUND BALANCE-GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Amounts reported for governmental activities in the Statement of Activities are different from the way they are reported in the Statement of Revenues, Expenditures and Changes in Fund Balance as follows:

Net Change in Fund Balance - Government Funds	\$ 61,320
Loan proceeds recorded as revenue in fund statements	(50,000)
Depreciation expense	(7,662)
Principal payments on debt reported as an expenditure in the government funds but recorded as reduction of debt in in the Statement of Net Assets	<u>5,387</u>
Net Assets - Statement of Net Assets	<u>\$ 9,045</u>

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

STATE OF NEW MEXICO
 UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND AND SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund			
	Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Mill Levy	\$ 207,015	\$ 207,015	\$ 214,796	\$ 7,781
State Allocation	11,000	11,000	10,723	(277)
Operating Grant -Weed Program	333,500	333,500	66,828	(266,672)
Operating Grant - Water Trust Board	450,000	450,000	614,878	164,878
Loan Proceeds - Water Trust Board	50,000	50,000	50,000	-
Operating Grant - BLM	13,000	13,000	-	(13,000)
Federal Grant - Emergency Watershed Prot.	-	-	75,000	75,000
Loan Repayments	-	-	1,222	1,222
Donations	2,400	2,400	-	(2,400)
Miscellaneous Revenue	1,500	1,500	-	(1,500)
Interest Income	3,000	3,000	2,057	(943)
Total revenues	1,071,415	1,071,415	1,035,504	(35,911)
Expenditures				
Accountant	900	900	1,635	(735)
Advertising	1,000	1,000	1,570	(570)
Annual Meeting	1,000	1,000	854	146
Audit	3,212	3,212	5,356	(2,144)
Bank Charges	100	100	143	(43)
Benevolence	1,200	1,200	2,076	(876)
BLM Projects	13,000	13,000	8,860	4,140
Board Expense	1,200	1,200	10,103	(8,903)
Bond	300	300	-	300
Building Maintenance	2,500	2,500	2,551	(51)
Conservation Incentives	50,000	50,000	26,765	23,235
Education	1,000	1,000	230	770
Personnel	86,000	86,000	107,326	(21,326)
Professional Fees	1,000	1,000	11,780	(10,780)
Equipment Maintenance	3,000	3,000	3,969	(969)
Hondo Garden Project	2,000	2,000	-	2,000
Insurance	2,500	2,500	1,182	1,318
Membership and Dues	2,000	2,000	2,714	(714)
NMACD Convention	1,000	1,000	-	1,000
NMFA Payments	11,968	11,968	5,387	6,581
Office Supplies	2,500	2,500	2,497	3
Operations	1,500	1,500	-	1,500
Subdivision Reviews	1,500	1,500	-	1,500
Training	5,000	5,000	-	5,000
Travel	20,000	20,000	5,795	14,205
Utilities	5,000	5,000	4,380	620
Web Site	1,000	1,000	-	1,000
Watershed Project Expense	500,000	500,000	695,584	(195,584)
Weed Program	342,030	342,030	72,247	269,783
Total expenditures	1,063,410	1,063,410	973,004	\$ 90,406
Excess (Deficiency) of Revenues over Expenditures	8,005	8,005	\$ 62,500	
Cash Balance, Beginning	288,684	288,684		
Cash Balance, Ending	<u>\$ 296,689</u>	<u>\$ 296,689</u>		

Reconciliation to GAAP Basis	
Change in Accounts Payable	(55)
Change in Receivables	(1,000)
Change in Accrued Payroll	(125)
Excess (Deficiency) Revenues over Expense	<u>\$ 61,320</u>

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Summary of Significant Accounting Policies

A. Reporting Entity

The Upper Hondo Soil and Water Conservation District (District) is organized under the provisions of the Soil and Water Conservation District Act (73-20-25 through 73-20-49 NMSA 1978). The District is a governmental subdivision of the state, a public body corporate and politic, organized for control and prevention of flood, sediment, and soil erosion damage, and to further the conservation, development and beneficial use of water and soil resources. The governing body of the District consists of a minimum of five elected supervisors, four of whom must be landowners in the District. Two additional supervisors may be appointed to the District board. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading.

A primary government is any state government or general-purpose local government and the organizations comprising its legal entity. Although the District is organized as a subdivision of the State and administratively attached to the New Mexico State University, Department of Agriculture, the statutory powers of the District establish it as a primary government with a separate corporate and legal identity. The District has no component units, financially dependent affiliates, nor is it legally liable for actions of other agencies.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District, a phase three government, was required to implement GASB Statement 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* in fiscal year 2004. To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets) report information on all of the non-fiduciary 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 business-type activities, however it does apply applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

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 customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue. Grants are recognized as revenues when all applicable eligibility requirements imposed by the provider are met. 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.

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 purposes. The special revenue fund was set up to account for the District's Emergency Watershed Protection Program Federal Grant

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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided such as grant administration fees and interest charged to land owners on loans for conservation projects, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment such as the Bureau of Reclamation (BOR) grant, Bureau of Land Management (BLM) grants, and various state and federal grants. Internally designated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Fund Balance

1. Cash, cash equivalent and investments

The District's cash and cash equivalents consist of demand deposits, money market accounts and time deposits. State statutes authorize the District to invest in obligations of the U.S. Treasury, repurchase agreements, and certificates of deposit. Investments for the government, if applicable, are reported at fair value.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. All amounts are expected to be repaid within one year.

The loans receivable balance is considered fully collectible therefore no allowance for uncollectible accounts had been established.

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 Eddy County Treasurer and are remitted to the District in the month following collection.

The District's accounts payable consist of amounts due to vendors and service providers such as subcontractors who have worked on conservation projects for the products purchased and service received in the current year but are paid for in the next fiscal year.

3. Net Assets and Fund Equity

The difference between the District's assets and liabilities is its net assets. The District's net assets consist of the following components – **net assets invested in capital assets** net of related debt, which is the cost of capital assets, net of accumulated depreciation, **committed fund balance** represents amounts that are useable only for specified purposes by formal action of the government's highest level of authority nets assets, **assigned fund balance** represents amounts that are intended to be used for a specific purpose but are neither restricted or committed, **restricted fund balance or net assets** - wherein the constraints are placed on net asset use either by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation and **unassigned fund balance** is the residual classification for the general fund and represents the amounts that have not been assigned to other funds and **unrestricted net assets** in the government wide financial statements is the unclassified net assets. As reported, the District's net assets as of June 30, 2011 consist of \$122,739 invested in capital assets, \$123,749 restricted for conservation projects and the remaining net assets of \$ 80,900 are unrestricted.

In fund financial statements, governmental funds report restrictions 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. As reported in the fund balance in the General Fund, the fund balance \$226,456 is unassigned and \$123,749 is restricted for conservation projects. Fund balance designations may be established to indicate tentative plans for financial resource utilization in a future period. The District uses available cash resources to balance the subsequent year budget.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

4. Capital Assets

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

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

Buildings	39 years
Furniture	15 years
Vehicles	5 years
Office Equipment	6 years
Light Equipment	7 years
Computer Equipment	5 years

5. Compensated Absences

It is the District's policy to permit certain employees excluding the Program Director 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 are due and payable at year end, for example, as a result of resignations and retirements.

According to District policy, employees accrue leave at six hours per month not to exceed 160 hours..

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:

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.

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

The Board reviews the budget proposal and makes any necessary adjustments.

Prior to June 1, the Board approves the budget by passing a resolution.

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. Encumbrance accounting is not utilized by the District.

Detailed Notes on all Funds

A. Cash

As of June 30, 2011, the District had a carrying amount of deposits as authorized by the New Mexico Constitution of \$351,184. The balances on deposit as \$376,016. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$42,114 and deposits of \$17,282. All deposits as of June 30, 2011 were insured by the FDIC (The Dodd Frank Act of 2010 required the FDIC to insure all non-interest bearing accounts until December 31, 2012).

The total bank balances consisted of the following:

Depository	Account Type	Fund Type	Balance	Reconciling Items		Balance Per Financial Statements
			Per Depository	Outstanding Checks	Deposits	
City Bank NM	Checking	Operating	\$ 4,455	\$ (16,116)	\$ 15,000	3,339
Washington Fed	Checking	Operating	120,159	-	-	120,159
City Bank NM	Checking	Operating	82,839	(15,000)	2,282	70,121
City Bank NM	Checking	Operating	44,816	(10,998)	-	33,818
City Bank NM	Checking	Operating	65,215	-	-	65,215
City Bank NM	Checking	Operating	47,765	-	-	47,765
City Bank NM	Checking	Operating	10,767	-	-	10,767
Total cash on deposit			\$ 376,016	\$ (42,114)	\$ 17,282	\$ 351,184

Deposit requirements per NM Statutes:

Collateral	Market Value
None	\$ -
Total FMV of Collateral	-
Total Deposits	\$ 376,018
Less: FDIC Insurance	(376,018)
Uninsured Deposits	-
Required Pledge	50% -
Pledge Over (Short)	Pledge Over (Short) \$ -

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 Authority does not have deposit policy for custodial credit risk. As of June 30, 2011, the District had no custodial credit risk.

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

B. Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Buildings and improvements	\$ 119,933	\$ -	\$ -	\$ 119,933
Vehicles and Equipment	<u>42,196</u>	-	-	<u>42,196</u>
Total capital assets being depreciated	<u>162,129</u>	-	-	<u>162,129</u>
Less accumulated depreciation for:				
Buildings and improvements	19,889	3,075	-	22,964
Vehicles and Equipment	<u>18,498</u>	<u>4,587</u>	-	<u>23,085</u>
Total accumulated depreciation	<u>38,387</u>	<u>7,662</u>	-	<u>46,049</u>
Total capital assets being depreciated, net	<u>\$ 123,742</u>	<u>\$ (7,662)</u>	<u>\$ -</u>	<u>\$ 116,080</u>

C. Long-Term Debt

The District has entered in four loan agreements to fund various needs of the District. All loans bear a 0% interest rate. Long-term obligations of the District are as follows:

	Maturity	6/30/09	Additions	(Reductions)	6/30/10	One Year
Note Payable						
NMFA - Vehicle	5/1/2014	\$ 21,545	\$ -	\$ (5,387)	\$ 16,158	\$ 5,387
NMFA - WTB #174	6/1/2019	48,492	-	-	48,492	5,334
NMFA - WTB #175	6/1/2019	24,247	-	-	24,247	2,667
NMFA - WTB #204	6/1/2019	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>5,435</u>
Total Long-Term Obligations		<u>\$ 94,284</u>	<u>\$ 50,000</u>	<u>\$ (5,387)</u>	<u>\$ 138,897</u>	<u>\$ 18,823</u>

The annual requirements to amortize principal on all debt outstanding as of June 30, 2011, is as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 18,823	\$ -	\$ 18,823
2013	18,823	-	18,823
2014	18,823	-	18,823
2015	14,473	-	14,473
2016	14,473	-	14,473
2016-21	<u>53,482</u>	<u>-</u>	<u>53,482</u>
	<u>\$ 138,897</u>	<u>\$ -</u>	<u>\$ 138,897</u>

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

Other Information

A. Employee Retirement Benefits

Plan Description—Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employee Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employee 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, New Mexico 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% of the gross covered salary. The contribution requirements of plan members and the District are established in Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ended June 30, 2011, 2010, and 2009 are \$5,096, \$4,278 and \$4,862 respectively, equal to the amount of required contributions each year.

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 \$1,050,000 for each wrongful act and \$1,050,000 for the policy aggregated. The District is required to obtain a corporate surety bond on behalf of persons responsible for District assets. The District currently maintains a \$100,000 surety bond as well as commercial property coverage. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

C. Joint Powers Agreement - Pecos River Salt Cedar Control Project

During the 2002 session, the New Mexico State Legislature appropriated \$4.5 million to the New Mexico Department of Agriculture to remove salt cedar from the Pecos River Basin. As a result of this appropriation, a joint powers agreement was established for this project. The fiscal agent for the agreement is Carlsbad Soil and Water Conservation District. Audit responsibility is with New Mexico State University. The 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 are participants in the agreement. During the fiscal year 2011, the district received no funds from this agreement

Supplemental Information

Dan Austin CPA, PC
700 Mechem Drive Ste. 15
Ruidoso, NM 88345

**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**

Hector H. Balderas
New Mexico State Auditor
Chairperson, Members of the Board of Supervisors
Upper Hondo Soil & Water Conservation District
PO Box 900
Capitan, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and major special revenue funds of the Upper Hondo Soil and Water District (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing 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 reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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.

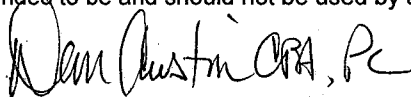
Compliance and Other Matters

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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards* January 2007 Revision paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978 which are described in the accompanying schedule of findings and responses as finding 9-3 and 9-4.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, the State Auditor, the New Mexico Legislature, and various agencies if the government of the United States of America and is not intended to be and should not be used by anyone other than these specified parties.



October 23, 2011

State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Recommendations, Responses and Other Disclosures
June 30, 2011

RESOLUTION OF PRIOR YEAR FINDINGS

- 9-2 Late Audit Report – Resolved
- 9-3 Preparation of Financial Statements – Repeated
- 9-4 Budget – Repeated
- 10-1 Deposit Security - Resolved

CURRENT YEAR FINDINGS

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) 115, 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.

Response

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

9-4 Budget

Condition

Audit procedures noted budget monitoring was not properly maintained noting various non-material discrepancies noted in the preparation of quarterly reports prepared for the New Mexico Department of Administration.

State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Recommendations, Responses and Other Disclosures
June 30, 2011

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 be monitored and expenditures not be exceeded at 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 and prepare reports accurately

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

The District is making various changes to the reporting system to more accurate report to the Board and State Officials.

FINANCIAL STATEMENT PREPARATION

Although it would be preferred and desirable for the District to prepare its own GAAP-based financial statements, it is felt that the District's personnel have neither the time nor the expertise to prepare them. Therefore, the outside auditor has prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report, however, the responsibility for the content of the report remains with District management.

EXIT CONFERENCE

On December 1, 2011, an exit conference was held at the District's administrative offices. Present were Scott Daniel, Trustee, Gaylon Herrera, Program Director, Dan Austin, CPA, representing the audit firm. The District's financial condition and report for the year ended June 30, 2011, was discussed as well as other financial reporting considerations.