

**STATE OF NEW MEXICO
UPPER HONDO
SOIL AND WATER CONSERVATION DISTRICT
FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2012
(With Independent Auditor's Report Thereon)**

State of New Mexico
Upper Hondo Soil and Water Conservation District
Table of Contents
June 30, 2012

	<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	22

**State of New Mexico
Upper Hondo Soil and Water Conservation District
Official Roster
June 30, 2012**

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	
Rebekah Toler	Program Director
Stephanie Bason	Project Technician

Financial Section

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

Independent Auditor's Report

Hector H. Balderas, New Mexico State Auditor
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, the general fund and the respective budgetary comparison of the Upper Hondo Soil and Water Conservation District(District) as of and for the year ended June 30, 2012, 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 the general fund of the District as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the general 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 a report dated December 13, 2012 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 omitted the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is required to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part financial reporting for placing the basic financial statements in an appropriate operational economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was performed for the purpose of forming opinions on the basic financial statements and the budgetary comparison schedule. The additional schedules listed as "supplemental information" in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


December 13, 2012

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012**

Assets	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 356,274
Loans Receivable	3,000
Capital assets, Net	<u>118,101</u>
 Total assets	 <u>477,375</u>
 Liabilities	
Current Liabilities	
Accounts Payable	884
Accrued Payroll	2,212
Current Long-Term Debt	28,296
Noncurrent liabilities:	
Long-Term Debt	<u>139,192</u>
 Total liabilities	 <u>170,584</u>
 Net Assets	
Invested in capital assets, net of related debt	107,329
Restricted for Conservation Projects	106,257
Unrestricted	<u>93,205</u>
 Total Net Assets	 <u>\$ 306,791</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, 2012

	Governmental Activites
Program Expenses:	
Administration	\$ 233,272
Depreciation	8,679
Conservation Programs	439,879
Total program expenses	681,830
Program Revenues:	
Charges for services	4,850
State operating grants and contracts	354,645
Federal operating grants and contracts	30,000
Other operating grants and contracts	40,978
Total program revenues	430,473
Net program (expense) revenue	(251,357)
General Revenues:	
State appropriation	8,384
Property taxes	221,525
Interest	851
Total general revenues	230,760
Change in net assets	(20,597)
Net assets at beginning of year	327,388
Net assets at end of year	\$ 306,791

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, 2012**

Assets	<u>General Fund</u>
Cash and cash equivalents	\$ 356,274
Loans Receivable	<u>3,000</u>
Total assets	<u>359,274</u>
 Liabilities and Fund Balance	
Liabilities:	
Accounts payable	884
Accrued Payroll	<u>2,212</u>
Total liabilities	<u>3,096</u>
Fund balance:	
Restricted for Conservation Grants	106,267
Unassigned	<u>249,911</u>
Total fund balance	<u>356,178</u>
Total liabilities and fund balance	<u>\$ 359,274</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
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS-
TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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	\$ 356,178
Capital Assets not reported in the government funds, and are reported net of accumulated depreciation	118,101
Debt principal not recorded in the government funds and reported in the Statement of net Assets	<u>(167,488)</u>
Net Assets - Statement of Net Assets	<u>\$ 306,791</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, 2012

	General Fund
Revenues	
Mill Levy	\$ 221,525
State Allocation	8,384
Operating Grant -Weed Program	40,978
Operating Grant -BLM	30,000
Operating Grant - Water Trust Board	354,645
Product Sales	4,607
Miscellaneous Revenue	243
Interest Income	851
Total revenues	661,233
Expenditures	
Current:	
Professional Fees	7,651
Advertising	2,207
Annual Meeting	5,359
Audit	23,898
Bank Charges	64
Board Expense	6,001
Bond	1,996
Building Maintenance	2,734
Cost Share Projects	26,940
Education	13,435
Personnel	121,199
Equipment Maintenance	20,465
Membership and Dues	1,535
NMFA Payments	21,753
Office Supplies	268
Operations	369
Travel and Per Diem	4,523
Utilities	4,984
Watershed Project Expense	374,362
Weed Program	65,517
Total expenditures	705,260
Excess (Deficiency) of Revenues Over Expenditures	(44,027)
Other Financing Sources (Uses)	
WTB Loan Proceeds	50,000
Net Other Financing Sources (Uses)	50,000
Net Change in Fund Balance	5,973
Fund balance beginning of year as reported	350,205
Fund balance end of year	\$ 356,178

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, 2012

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	\$ 5,973
Loan proceeds recorded as revenue in fund statements	(50,000)
Depreciation expense	(8,679)
Capital outlay record as expense on fund statements	10,700
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>21,409</u>
Net Assets - Statement of Net Assets	<u>\$ (20,597)</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, 2012**

	General Fund			
	Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Mill Levy	\$ 219,000	\$ 219,000	\$ 221,525	\$ 2,525
State Allocation	10,700	10,700	8,384	(2,316)
Operating Grant -Weed Program	50,000	50,000	40,978	(9,022)
Operating Grant - Water Trust Board	450,000	450,000	354,645	(95,355)
Loan Proceeds - Water Trust Board	50,000	50,000	50,000	-
Operating Grant - BLM	30,000	30,000	30,000	-
Loan Repayments	-	-	1,222	1,222
Product Sales	6,200	6,200	4,607	(1,593)
Miscellaneous Revenue	950	950	243	(707)
Interest Income	2,120	2,120	629	(1,491)
Total revenues	818,970	818,970	712,233	(106,737)
Expenditures				
Accounting and Professional Fees	-	-	7,390	(7,390)
Advertising	1,900	1,900	2,207	(307)
Annual Meeting	1,800	1,800	5,359	(3,559)
Audit	13,035	13,035	23,898	(10,863)
Bank Charges	-	-	64	(64)
Board Expense	13,300	13,300	6,001	7,299
Bond	1,200	1,200	1,746	(546)
Building Maintenance	3,100	3,100	2,734	366
Cost Share Projects	26,000	26,000	26,940	(940)
Education	5,200	5,200	13,435	(8,235)
Personnel	114,399	114,399	120,337	(5,938)
Vehicle and Equipment Maintenance Operation	11,400	11,400	20,465	(9,065)
Membership and Dues	1,000	1,000	1,535	(535)
NMFA Payments	18,657	18,657	21,753	(3,096)
Office Supplies and Postage	200	200	387	(187)
Operations	1,500	1,500	369	1,131
Travel and Per Diem	10,000	10,000	4,523	5,477
Utilities	4,500	4,500	5,121	(621)
Loans to Carrizozo SWCD	-	-	3,000	(3,000)
Watershed Project Expense	590,000	590,000	374,362	215,638
Weed Program	-	-	65,517	(65,517)
Total expenditures	817,191	817,191	707,143	\$ 110,048
Excess (Deficiency) of Revenues over Expenditures	1,779	1,779	5,090	
Cash Balance, Beginning	351,184	351,184	351,184	
Cash Balance, Ending	\$ 352,963	\$ 352,963	\$ 356,274	

Reconciliation of Cash Basis to GAAP Basis:

Cash Basis Excess (Deficiency) of Revenues over Expenditures	\$ 5,090
Change in Accounts Payable	(255)
Change in Receivables	2,000
Change in Accrued Payroll	(862)
GAAP Excess (Deficiency) Revenues over Expense	\$ 5,973

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, 2012

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 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, 2012**

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 funds are utilized to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. No special revenue funds are utilized as of June 30, 2012.

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, 2012

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, Payables and Property Tax

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 Lincoln 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, 2012 consist of \$107,329 invested in capital assets, \$106,257 restricted for conservation projects and the remaining net assets of \$ 93,205 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 \$249,911 is unassigned and \$106,267 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, 2012

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, 2012**

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, 2012, the District had a carrying amount of deposits as authorized by the New Mexico Constitution of \$356,274. The balances on deposit as \$368,376. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$12,103 and deposits of \$-0-. All deposits as of June 30, 2012 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 Per Depository	Reconciling Items		Balance Per Financial Statements
				Outstanding Checks	Deposits	
Washington Fed	Checking	Operating	\$ 45,054	\$ -	\$ -	45,054
Washington Fed	Checking	Operating	76,540	-	-	76,540
City Bank NM	Checking	Operating	106,268	-	-	106,268
City Bank NM	Checking	Operating	15,830	(1,499)	-	14,331
City Bank NM	Checking	Operating	106,185	-	-	106,185
City Bank NM	Checking	Operating	18,500	(10,604)	-	7,896
City Bank NM	Checking	Operating	-	-	-	-
Total cash on deposit			\$ 368,377	\$ (12,103)	\$ -	\$ 356,274

Deposit requirements per NM Statutes:

Collateral	Market Value
None	\$ -
Total FMV of Collateral	-
Total Deposits	\$ 368,377
Less: FDIC Insurance	(368,377)
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, 2012, 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, 2012**

B. Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Buildings and Improvements	\$ 119,933	\$ -	\$ -	\$ 119,933
Vehicles and Equipment	42,196	10,700	-	52,896
Total capital assets being depreciated	162,129	10,700	-	172,829
Less accumulated depreciation for:				
Buildings and improvements	22,964	3,075	-	26,039
Vehicles and Equipment	23,085	5,604	-	28,689
Total accumulated depreciation	46,049	8,679	-	54,728
Total capital assets being depreciated, net	\$ 116,080	\$ 2,021	\$ -	\$ 118,101

Depreciation recorded in the government wide financial statements was \$8,679.

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	6/30/11	Additions	(Reductions)	6/30/12	One Year
Note Payable						
NMFA - Vehicle	5/1/2014	\$ 16,158	\$ -	\$ (5,386)	\$ 10,772	\$ 5,387
NMFA - WTB #174	6/1/2019	48,492	-	(10,682)	37,810	5,384
NMFA - WTB #175	6/1/2019	24,247	-	(5,341)	18,906	2,681
NMFA - WTB #204	6/1/2019	50,000	-	-	50,000	9,900
NMFA - WTB #230	6/1/2020	-	50,000	-	50,000	4,944
Total Long-Term Obligations		\$ 138,897	\$ 50,000	\$ (21,409)	\$ 167,488	\$ 28,296

The annual requirements to amortize principal on all debt outstanding as of June 30, 2012, is as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 28,295	\$ -	\$ 28,295
2014	23,394	-	23,394
2015	18,049	-	18,049
2016	18,101	-	18,101
2017	18,138	-	18,138
2018-2022	61,511	-	61,511
	\$ 167,488	\$ -	\$ 167,488

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 12 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 12 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ended June 30, 2012, 2011, and 2010 are \$5,537, \$5,096 and \$4,278 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 2012, 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, the general fund, and the respective budgetary comparison of the Upper Hondo and Water Conservation District as of and for the year ended June 30, 2012, which collectively comprise the Upper Hondo Soil and Water Conservation District's basic financial statements and have issued our report thereon dated December 13, 2012. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Upper Hondo Soil and Water Conservation 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 Upper Hondo Soil and Water Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Upper Hondo Soil and Water Conservation 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.

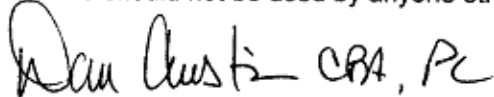
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Hondo Soil and Water Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance 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 findings as item 9-4 and 12-1.

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 Upper Hondo Soil and Water Conservation District's management, the New Mexico Department of Finance and Administration, New Mexico Department of Agriculture, the New Mexico State Legislature, the applicable federal grantors, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

 Dan Austin CBA, PC

December 13, 2012

State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Recommendations, Responses and Other Disclosures
June 30, 2012

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control Over Financial Reporting

Material weakness identified? No

Significant deficiencies identified not considered
To be material weakness? No

Compliance and Other Matters

Noncompliance material to the financial statements noted? No

RESOLUTION OF PRIOR YEAR FINDINGS

- 9-3 Preparation of Financial Statements – Resolved
- 9-4 Budget Report Preparation - Repeated

CURRENT YEAR FINDINGS

9 - 4 Budget Report Preparation

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.

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.

State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Recommendations, Responses and Other Disclosures
June 30, 2012

12-1. Audit Report Submitted Late

Condition: The audit report was not submitted to the New Mexico State Auditor's office by the due date of December 1, 2012.

Criteria: The New Mexico State Auditor requires public entities to submit their audit reports by December 1. If the reports are submitted late, it is considered to be an instance of noncompliance with Subsection A of 2.2.2.9 NMAC.

Cause: The Auditor failed to complete the engagement by December 1, 2012.

Effect: Noncompliance with state audit rule.

Recommendation: Complete the audit reports in a timely manner.

Response: The District will submit future audit reports by the due date.

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 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 17, 2012, an exit conference was held at the District's administrative offices. Present were Scott Daniel, Secretary/Treasurer, Rebekah Toler, Program Director, Dan Austin, CPA, representing the audit firm. The District's financial condition and report for the year ended June 30, 2012, was discussed as well as other financial reporting considerations.