

STATE OF NEW MEXICO

**UPPER HONDO
SOIL AND WATER CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2013
(With Independent Auditor's Report Thereon)**

State of New Mexico
Upper Hondo Soil and Water Conservation District
Table of Contents
June 30, 2013

	<u>Page</u>
Introductory Section	
Table of Contents	1
Official Roster	2
Financial Section	
Independent Auditor's Report	4
Basic Financial Statements:	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements	
Balance Sheet - Governmental Funds	8
Reconciliation of the Balance Sheet to Statement of Net Position	9
Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds	10
Reconciliation of the Statement of Activities to the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	11
Statement of Revenues and Expenditures-Budget and Actual(Non-GAAP Budgetary Basis) General and Special Revenue Funds	12
Notes to the Financial Statements	13
Other Reports and 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	23
Schedule of Findings, Responses and Other Disclosures	25

**State of New Mexico
Upper Hondo Soil and Water Conservation District
Official Roster
June 30, 2013**

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

Report on Financial Statements

We have audited the accompanying financial statements of the government activities, the general fund and the respective budgetary comparison of the Upper Hondo Soil and Water Conservation District as of and for the year ended June 30, 2013, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the general fund, the budgetary comparison for the general fund of the Upper Hondo Soil and Water Conservation District as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

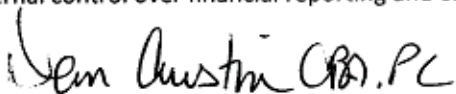
Other Matters

Required Supplementary Information

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB who considers it to be an essential part of 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, We have also issued a report dated November 21, 2013, on my consideration of Upper Hondo Soil and Water Conservation District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* in considering Upper Hondo Soil and Water Conservation District's internal control over financial reporting and compliance.



November 21, 2013

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 436,739
Loans Receivable	2,000
Capital assets, Net	<u>109,148</u>
 Total assets	 <u>547,887</u>
Liabilities	
Current Liabilities	
Accounts Payable	1,817
Accrued Payroll	1,802
Payroll Tax Payable	2,272
Current Long-Term Debt	18,438
Noncurrent liabilities:	
Long-Term Debt	<u>75,722</u>
 Total liabilities	 <u>100,051</u>
Net Position	
Net investment in capital assets	109,148
Restricted for Conservation Projects	134,751
Unrestricted	<u>203,937</u>
 Total Net Position	 <u>\$ 447,836</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, 2013**

	Governmental Activities
Program Expenses:	
Administration	\$ 231,332
Depreciation	8,953
Conservation Programs	541,260
Total program expenses	781,545
Program Revenues:	
Charges for services	12,835
State operating grants and contracts	399,351
Federal operating grants and contracts	154,018
Other operating grants and contracts	59,022
Total program revenues	625,226
Net program (expense) revenue	(156,319)
General Revenues:	
State appropriation	13,247
Property taxes	233,373
Interest	744
Total general revenues	247,364
Change in net position	91,045
Net position at beginning of year	306,791
Adjustment to Net Position	50,000
Net Position, restated	356,791
Net Position at end of year	\$ 447,836

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

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 436,739
Loans Receivable	<u>2,000</u>
Total assets	<u><u>438,739</u></u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	1,817
Accrued Payroll	1,802
Payroll Taxes Payable	<u>2,272</u>
Total liabilities	<u>5,891</u>
Fund balance:	
Restricted for Conservation Grants	134,791
Unassigned	<u>298,057</u>
Total fund balance	<u>432,848</u>
Total liabilities and fund balance	<u><u>\$ 438,739</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
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS-
TO THE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

Fund Balance - Balance Sheet - Government Funds	\$ 432,848
Capital Assets not reported in the government funds, and are reported net of accumulated depreciation	109,148
Debt principal not recorded in the government funds and reported in the Statement of Net Position	<u>(94,160)</u>
Total Net Position - Statement of Net Position	<u>\$ 447,836</u>

The notes to the financial payments are an integral 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, 2013

	General Fund
Revenues	
Mill Levy	\$ 233,373
State Allocation	12,990
Operating Grant -Weed Program	59,022
Operating Grant - Water Trust Board	384,599
Operating Grant - NMDA	14,752
Operating Grant - BLM	41,775
Operating Grant - NRCS EWP	112,243
Product Sales	12,835
Miscellaneous Revenue	257
Total revenues	871,846
Expenditures	
Current:	
Professional Fees	2,628
Advertising	3,090
Annual Meeting	2,992
Audit	10,863
Board Expense	8,060
Bond	750
Building Maintenance	3,148
Cost Share Projects	34,324
Education	2,454
Personnel	122,040
Equipment Maintenance	11,366
Membership and Dues	220
NMFA Payments	23,726
Office Supplies	263
Operations	16,651
Travel and Per Diem	4,187
Training	2,232
Utilities	5,666
Watershed Project Expense	502,051
Weed Program	39,209
Total expenditures	795,920
Excess (Deficiency) of Revenues Over Expenditures	75,926
Other Financing Sources (Uses)	
Interest Income	744
Net Other Financing Sources (Uses)	744
Net Change in Fund Balance	76,670
Fund balance beginning of year as reported	356,178
Fund balance end of year	\$ 432,848

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, 2013

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	\$	76,670
Depreciation expense		(8,953)
Principal payments on debt reported as an expenditure in the government funds but recorded as reduction of debt in in the Statement of Net Posiion		<u>23,328</u>
Change in Net Position - Government Activities	\$	<u>91,045</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, 2013

	General Fund			
	Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Mill Levy	\$ 238,489	\$ 219,832	\$ 233,373	\$ 13,541
State Allocation	12,000	12,990	12,990	-
Operating Grant - Weed Program	50,000	59,022	59,022	-
Operating Grant - Water Trust Board	500,000	500,000	384,599	(115,401)
Operating Grant - NMDA	20,361	20,351	14,752	(5,599)
Operating Grant - BLM	65,000	65,000	41,775	(23,225)
Operating Grant - NRCS EWP	750,000	750,000	112,243	(637,757)
Product Sales	37,200	37,200	12,835	(24,365)
Loan Repayments	-	-	1,154	1,154
Miscellaneous Revenue	950	1,500	257	(1,243)
Interest Income	2,120	2,120	590	(1,530)
Total revenues	1,676,120	1,668,015	873,590	(794,425)
Expenditures				
Accounting and Professional Fees	6,000	6,000	2,442	3,558
Advertising	2,500	3,100	3,090	10
Annual Meeting	5,600	5,600	2,992	2,608
Audit	15,000	15,000	10,863	4,137
Board Expense	18,000	18,000	8,060	9,940
Bond	1,800	1,800	1,000	800
Building Maintenance	3,500	3,500	3,148	352
Cost Share Projects	35,000	35,000	34,324	676
Education	3,000	3,000	2,454	546
Personnel	139,737	139,737	120,178	19,559
Vehicle and Equipment Maintenance Operation	6,500	6,500	11,366	(4,866)
Membership and Dues	1,500	1,500	220	1,280
NMFA Payments	18,657	25,000	23,726	1,274
Office Supplies and Postage	8,000	8,000	263	7,737
Operations	67,550	96,382	16,651	79,731
Travel and Per Diem	7,500	7,500	4,187	3,313
Training	2,500	2,500	2,232	268
Utilities	5,500	5,500	5,488	12
Watershed Project Expense	1,330,000	1,305,000	501,232	803,768
Weed Program	30,000	50,000	39,209	10,791
Total expenditures	1,707,844	1,738,619	793,125	\$ 945,494
Excess (Deficiency) of Revenues over Expenditures	(31,724)	(70,604)	80,465	
Cash Balance, Beginning	356,274	356,274	356,274	
Cash Balance, Ending	\$ 324,550	\$ 285,670	\$ 436,739	

Reconciliation of Cash Basis to GAAP Basis:

Cash Basis Excess (Deficiency) of Revenues over Expenditures	\$ 80,465
Change in Accounts Payable	(933)
Change in Receivables	(1,000)
Change in Payroll Tax Payable	(2,272)
Change in Accrued Payroll	410
GAAP Excess (Deficiency) Revenues over Expense	\$ 76,670

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, 2013

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 position) 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 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 AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013

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.

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 Position or Fund Balance

1. Cash, cash equivalent and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the investment of the District's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The District is also allowed to invest in United States Government obligations. All funds for the District must follow the above investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the of the asked price on United States treasury bills of the same maturity on the day of deposit.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

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. *Fund Balance*

In accordance with GASB Statement No. 54, fund balances are classified as non-spendable, restricted, committed, assigned or unassigned.

Non-Spendable

The non-spendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed

Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the District's Board of Supervisors should be reported as committed fund balance. The committed amounts cannot be used for any other purpose unless the District's Board of Supervisors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The District did not have committed fund balances for the year ended June 30, 2013.

Assigned

Assigned fund balance includes (a) all remaining amounts, except for negative balances, that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and amounts in the general fund that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent, and removal of, is expressed by the Board of Supervisors or the Finance Committee. The District did not have assigned fund balances for the year ended June 30, 2013.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Unassigned

The remaining fund balance, after all other classifications, within the general fund is reported as unassigned fund balance. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, a negative fund balance will be reported as unassigned fund balance.

When committed, assigned, and unassigned resources are available for use, it is the District's policy to use committed first followed by followed by assigned and unassigned resources as they are needed.

4. *Net Position*

Net position is presented on the statement of net position and may be presented in any of three components.

Invested in capital assets, net of related debt

This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. That portion of the debt is included in restricted for capital projects.

Restricted net position

Net position is reported as being restricted when the restriction is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

Unrestricted net position

Unrestricted net position consists of net position that does not meet the definition of "invested in capital assets, net of related debt" or "restricted."

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.

In the governmental environment, net position often is designated to indicate that management does not consider them to be available for general operations. In contrast to restricted net position, these types of constraints on resources are internal and management can remove or modify them however, enabling legislation established by the reporting government should not be construed as an internal constraint.

5. *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.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

Buildings	39 years
Vehicles	5 years
Office Equipment	5 years
Light Equipment	7 years
Computer Equipment	5 years

6. *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.

7. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net position. Bond premiums and discounts, as well as issuance costs, are expensed in the period incurred. Bonds payable are reported net of the applicable bond premium or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as capital projects expenditures.

8. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

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

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013, the District had a carrying amount of deposits as authorized by the New Mexico Constitution of \$436,739. The balances on deposit as of June 30, 2013 were \$440,227. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$3,488 and deposits of \$-0-. Deposits as of June 30, 2013 that were uninsured amounted to \$68,453. No depositories pledged securities against uninsured deposits at June 30, 2013.

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	\$ 45,121	\$ -	\$ -	45,121
Washington Fed	Checking	Operating	76,654	-	-	76,654
City Bank NM	Checking	Operating	144,751	-	-	144,751
City Bank NM	Checking	Operating	24,195	-	-	24,195
City Bank NM	Checking	Operating	76,176	-	-	76,176
City Bank NM	Checking	Operating	73,330	(3,488)	-	69,842
Total cash on deposit			<u>\$ 440,227</u>	<u>\$ (3,488)</u>	<u>\$ -</u>	<u>\$ 436,739</u>

Deposit requirements per NM Statutes:

Collateral	Market Value
None Pledged	\$ -
Total FMV of Collateral	-
Total Deposits	\$ 440,263
Less: FDIC Insurance	(371,810)
Uninsured Deposits	<u>68,453</u>
Required Pledge	50% <u>34,227</u>
Pledge Over (Short)	<u>\$ (34,227)</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The Authority does not have deposit policy for custodial credit risk. As of June 30, 2013, the District had custodial credit risk of \$68,453 in deposits.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

B. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Buildings and improvements	\$ 119,933	\$ -	\$ -	\$ 119,933
Vehicles and Equipment	<u>52,896</u>	<u>-</u>	<u>-</u>	<u>52,896</u>
Total capital assets being depreciated	<u>172,829</u>	<u>-</u>	<u>-</u>	<u>172,829</u>
Less accumulated depreciation for:				
Buildings and improvements	26,038	3,075	-	29,113
Vehicles and Equipment	<u>28,689</u>	<u>5,879</u>	<u>-</u>	<u>34,568</u>
Total accumulated depreciation	<u>54,727</u>	<u>8,954</u>	<u>-</u>	<u>63,681</u>
Total capital assets being depreciated, net	<u>\$ 118,102</u>	<u>\$ (8,954)</u>	<u>\$ -</u>	<u>\$ 109,148</u>

Depreciation recorded in the government wide financial statements was \$8,954

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	6/30/12	Additions	(Reductions)	6/30/13	One Year
Note Payable						
NMFA - Vehicle	5/1/2014	\$ 10,772	\$ -	\$ (5,386)	\$ 5,386	\$ 5,386
NMFA - WTB #174	6/1/2019	37,810	-	(5,361)	32,449	5,396
NMFA - WTB #175	6/1/2019	18,906	-	(2,681)	16,225	2,687
NMFA - WTB #204	6/1/2019	50,000	-	(9,900)	40,100	4,969
Total Long-Term Obligations		<u>\$ 117,488</u>	<u>\$ -</u>	<u>\$ (23,328)</u>	<u>\$ 94,160</u>	<u>\$ 18,438</u>

The annual requirements to amortize principal on all debt outstanding as of June 30, 2013, is as follows:

2015	13,080	-	13,080
2016	13,120	-	13,120
2017	13,144	-	13,144
2018	13,173	-	13,173
2018-2022	<u>23,205</u>	<u>-</u>	<u>23,205</u>
	<u>\$ 94,160</u>	<u>\$ -</u>	<u>\$ 94,160</u>

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013, 2012, and 2011 are \$5,406, \$5,537 and \$5,096 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 2013, the district received no funds from this agreement.

D. Restatements

A correction was made for the fiscal year ended June 30, 2012 government-wide financial statements to reclassify loan proceeds from the New Mexico Water Trust Board to grant revenue in the amount of \$50,000 resulting in an increase in Net Position.

E. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS

The GASB issued Statement No. 65, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position* which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of Net Position by the government that is applicable to a future reporting period, and an acquisition of Net Position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and*

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District has implemented this statement.

The GASB issued Statement No. 66, which is effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged. The objective of this statement is to amend Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, government would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement 54. Fund Balance Reporting and Governmental Fund Type Definitions. This statement also amends Statement No. 62. Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and that principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee. These changes would eliminate any uncertainty regarding the application of Statement No. 13, Accounting for Operating Leases with Schedule Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales of Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The District has implemented this statement.

Other Reports and 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, in accordance with the 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, the financial statements of the governmental activities, the general fund, and the budgetary comparison for the general fund of Upper Hondo Soil and Water Conservation District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Upper Hondo Soil and Water Conservation District's basic financial statements and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered Upper Hondo Soil and Water Conservation District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upper Hondo Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Upper Hondo Soil and Water Conservation District's internal control.

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 Upper Hondo Soil and Water Conservation District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

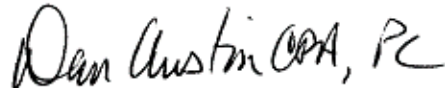
As part of obtaining reasonable assurance about whether Upper Hondo Soil and Water Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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 tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses and other disclosures as item 13-1,

Upper Hondo Soil and Water Conservation District Response to Findings

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. The Upper Hondo Soil and Water Conservation District's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Upper Hondo Soil and Water Conservation District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



November 21, 2013

State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Responses and Other Disclosures
June 30, 2013

Financial Statements

Type of auditor's report issued: Unmodified

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? Yes

RESOLUTION OF PRIOR YEAR FINDINGS

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

CURRENT YEAR FINDINGS

13 - 1 Under Collateralized Bank Accounts - Noncompliance

Criteria: In accordance with Section 6-10-17, NMSA 1978 all public entities are required to secure collateralization of deposits in excess of FDIC insurance amounts. The Statute requires that deposits of public monies are to be collateralized in an aggregate amount equal to fifty percent of deposits in excess of FDIC insurance coverage.

Condition: A local bank failed to collateralize deposits in excess of FDIC insurance.

Cause: Bank and District management oversight.

Effect: The district is in noncompliance with New Mexico law.

Recommendation: The District must establish a policy of monitoring bank balances to determine if pledging is required.

Response: The District will develop policies to monitor deposit totals per institution to insure compliance with this statute.

State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Responses and Other Disclosures
June 30, 2013

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 November 28, 2013, 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, 2013, was discussed as well as other financial reporting considerations.