

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

**FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2014
(With Independent Auditor's Report Thereon)**

**State of New Mexico
Upper Hondo Soil and Water Conservation District
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June 30, 2014**

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**State of New Mexico
Upper Hondo Soil and Water Conservation District
Official Roster
June 30, 2014**

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

Julia Bertrand

Administrative Assistant

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, 2014, 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, 2014, 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

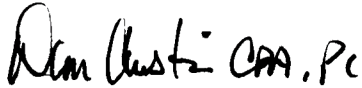
Other Matters

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, 2014, 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, 2014

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 306,279
Loans Receivable	1,000
Capital assets, Net	100,194
 Total assets	 407,473
Liabilities	
Current Liabilities	
Accounts Payable	1,573
Accrued Payroll	3,592
Payroll Tax Payable	3,865
Current Long-Term Debt	13,080
Noncurrent liabilities:	
Long-Term Debt	62,664
 Total liabilities	 84,774
Net Position	
Net investment in capital assets	100,194
Restricted for Conservation Projects	25,797
Unrestricted	196,708
 Total Net Position	 \$ 322,699

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, 2014

	Governmental Activates
Program Expenses:	
Administration	\$ 275,649
Depreciation	8,954
Conservation Programs	323,815
Total program expenses	608,418
Program Revenues:	
Charges for services and sales	9,753
State operating grants and contracts	174,964
Federal operating grants and contracts	4,330
Other operating grants and contracts	40,000
Total program revenues	229,047
Net program (expense) revenue	(379,371)
General Revenues:	
State appropriation	12,907
Property taxes	240,506
Interest	821
Total general revenues	254,234
Change in net position	(125,137)
Net position at beginning of year	447,836
Net Position at end of year	\$ 322,699

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, 2014**

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 306,279
Loans Receivable	<u>1,000</u>
 Total assets	 <u><u>307,279</u></u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	1,573
Accrued Payroll	3,592
Payroll Taxes Payable	<u>3,865</u>
 Total liabilities	 <u>9,030</u>
Fund balance:	
Restricted for Conservation Grants	25,797
Unassigned	<u>272,452</u>
 Total fund balance	 <u>298,249</u>
 Total liabilities and fund balance	 <u><u>\$ 307,279</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, 2014**

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	\$ 298,249
Capital Assets not reported in the government funds, and are reported net of accumulated depreciation	100,194
Debt principal not recorded in the government funds and reported in the Statement of Net Position	<u>(75,744)</u>
Total Net Position - Statement of Net Position	<u>\$ 322,699</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, 2014

	General Fund
Revenues	
Mill Levy	\$ 240,506
State Allocation	12,907
Local Operating Grant -Weed Program	2,150
State Operating Grant - Water Trust Board	147,206
State Operating Grant - NMDA	25,609
Federal Operating Grant - BLM	4,330
Federal Operating Grant - NRCS EWP	40,000
Product Sales	9,593
Miscellaneous Revenue	160
	482,461
Expenditures	
Current:	
Accounting and Professional Fees	1,509
Advertising	4,203
Meeting Expense	5,133
Audit	11,471
Board Expense	7,041
Bond/Insurance	2,495
Building Maintenance	7,314
Cost Share Projects	33,288
Education	2,933
Personnel	120,614
Vehicle and Equipment Maintenance Operation	4,172
Membership and Dues	409
NMFA Payments	18,416
Office and Equipment Expense	13,340
Postage	457
Field Supplies	1,479
Travel and Per Diem	5,645
Training	2,235
Utilities	6,972
Conservation Expense	352,585
Grass Seed	15,000
Seed Grant	1,170
	617,881
Excess (Deficiency) of Revenues Over Expenditures	(135,420)
Other Financing Sources (Uses)	
Interest Income	821
Net Other Financing Sources (Uses)	821
Net Change in Fund Balance	(134,599)
Fund balance beginning of year as reported	432,848
Fund balance end of year	\$ 298,249

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, 2014**

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	\$ (134,599)
Depreciation expense	(8,954)
Principal payments on debt reported as an expenditure in the government funds but recorded as reduction of debt in in the Statement of Net Position	<u>18,416</u>
Change in Net Position - Government Activities	<u><u>\$ (125,137)</u></u>

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

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund			Variance Favorable (Unfavorable)
	Budget	Final Budget	Actual	
Revenues				
Mill Levy	\$ 237,976	\$ 240,506	\$ 240,506	\$ -
State Allocation	13,100	13,100	12,907	(193)
Operating Grant -Weed Program	24,000	24,000	2,150	(21,850)
Operating Grant - Water Trust Board	500,000	500,000	147,206	(352,794)
Operating Grant - NMDA	25,970	25,970	25,609	(361)
Operating Grant - BLM	65,000	65,000	4,330	(60,670)
Operating Grant - Noxious Weed Grant	40,000	40,000	40,000	-
Product Sales	21,200	21,660	9,593	(12,067)
Loan Repayments	1,000	1,000	1,154	154
Miscellaneous Revenue	5,200	5,200	160	(5,040)
Interest Income	2,120	2,120	667	(1,453)
Total revenues	935,566	938,556	484,282	(454,274)
Expenditures				
Accounting and Professional Fees	6,000	6,000	1,509	4,491
Advertising	7,000	7,000	4,203	2,797
Meeting Expense	5,600	5,600	5,133	467
Audit	13,000	13,000	11,471	1,529
Board Expense	13,500	13,500	7,165	6,335
Bond/Insurance	4,000	4,000	2,495	1,505
Building Maintenance	8,000	8,000	7,314	686
Cost Share Projects	35,000	35,000	33,288	1,712
Education	3,000	3,000	2,933	67
Personnel	135,000	135,000	117,231	17,769
Vehicle and Equipment Maintenance Operation	6,500	6,500	4,172	2,328
Membership and Dues	1,500	1,500	409	1,091
NMFA Payments	38,330	38,330	18,189	20,141
Office and Equipment Expense	13,500	13,500	12,736	764
Postage	500	500	457	43
Field Supplies	1,500	1,500	1,479	21
Travel and Per Diem	7,500	7,500	5,645	1,855
Training	3,500	3,500	2,235	1,265
Utilities	8,000	8,000	7,104	896
Conservation Expense	661,361	661,361	353,404	307,957
Grass Seed	15,000	15,000	15,000	-
Seed Grant	24,000	24,000	1,170	22,830
Total expenditures	1,011,291	1,011,291	614,742	\$ 396,549
Excess (Deficiency) of Revenues over Expenditures	(75,725)	(72,735)	(130,460)	
Cash Balance, Beginning	436,739	436,739	436,739	
Cash Balance, Ending	\$ 361,014	\$ 364,004	\$ 306,279	

Reconciliation of Cash Basis to GAAP Basis:

Cash Basis Excess (Deficiency) of Revenues over Expenditures	\$ (130,460)
Change in Accounts Payable	244
Change in Receivables	(1,000)
Change in Payroll Tax Payable	(1,593)
Change in Accrued Payroll	(1,790)
GAAP Excess (Deficiency) Revenues over Expense	\$ (134,599)

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, 2014**

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, 2014**

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, 2014

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, 2014

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, 2014.

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, 2014.

STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014**

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, 2014**

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, 2014, the District had a carrying amount of deposits as authorized by the New Mexico Constitution of \$306,279 in two financial institutions. The balances on deposit as of June 30, 2014 were \$306,640. The difference between the carrying amount and the bank balance of deposits is due to outstanding checks of \$361 and deposits of \$-0-. Deposits as of June 30, 2014 that were uninsured amounted to \$0 in two financial institutions. One depository pledged securities against uninsured deposits at June 30, 2014, however all deposits were insured by the FDIC.

The total bank balances consisted of the following:

Account Type	Fund Type	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
			Outstanding Checks	Deposits	
Checking	Operating	\$ 45,190	\$ -	\$ -	45,190
Checking	Operating	76,770	-	-	76,770
Checking	Operating	25,798	-	-	25,798
Checking	Operating	34,057	-	-	34,057
Checking	Operating	52,067	-	-	52,067
Checking	Operating	<u>72,758</u>	<u>(361)</u>	<u>-</u>	<u>72,397</u>
		<u>\$ 306,640</u>	<u>\$ (361)</u>	<u>\$ -</u>	<u>\$ 306,279</u>

Deposit requirements per NM Statutes:

Cusip	Collateral	Maturity	Rate	Par	Market Value
3620E0NW2	FHLMC Gold PC	8/20/2061	2.50%	\$ 50,000	\$ 40,553
	Total FMV of Collateral				40,553
	Total Deposits			\$ 306,640	
	Less: FDIC Insurance			<u>(306,640)</u>	
	Uninsured Deposits			<u>-</u>	
	Required Pledge			50%	<u>-</u>
	Pledge Over (Short)		Pledge Over (Short)		<u>\$ 40,553</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, 2014, the District had no custodial credit risk on deposits.

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

B. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 119,933	\$ -	\$ -	\$ 119,933
Vehicles and Equipment	52,896	-	-	52,896
Total capital assets being depreciated	<u>172,829</u>	<u>-</u>	<u>-</u>	<u>172,829</u>
Less accumulated depreciation for:				
Buildings and improvements	29,113	3,075	-	32,188
Vehicles and Equipment	34,568	5,879	-	40,447
Total accumulated depreciation	<u>63,681</u>	<u>8,954</u>	<u>-</u>	<u>72,635</u>
Total capital assets being depreciated, net	<u>\$ 109,148</u>	<u>\$ (8,954)</u>	<u>\$ -</u>	<u>\$ 100,194</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:

	<u>Maturity</u>	<u>6/30/13</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>6/30/14</u>	<u>One Year</u>
Note Payable						
NMFA - Vehicle	5/1/2014	\$ 5,386	\$ -	\$ (5,386)	\$ -	\$ -
NMFA - WTB #174	6/1/2019	32,449	-	(5,374)	27,075	5,405
NMFA - WTB #175	6/1/2019	16,225	-	(2,687)	13,538	2,694
NMFA - WTB #204	6/1/2019	40,100	-	(4,969)	35,131	4,981
Total Long-Term Obligations		<u>\$ 94,160</u>	<u>\$ -</u>	<u>\$ (18,416)</u>	<u>\$ 75,744</u>	<u>\$ 13,080</u>

The annual requirements to amortize principal on all debt outstanding as of June 30, 2014, is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 13,080	\$ -	\$ 13,080
2016	13,120	-	13,120
2017	13,144	-	13,144
2018	13,173	-	13,173
2019	13,082	-	13,082
2020-2022	10,145	-	10,145
	<u>\$ 75,744</u>	<u>\$ -</u>	<u>\$ 75,744</u>

**STATE OF NEW MEXICO
UPPER HONDO SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014, 2013, and 2012 are \$6,235, \$5,,406 and \$5,537 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. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS

GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. The statement replaces the requirements of GASBS 27. Accounting for Pensions by State and Local Governmental Employers and the requirements of GASBS 50 Pension Disclosures, as they related to pensions that are provided through pension plans administered as trusts. The requirements of Statements 27 and 50 remain applicable for pensions that are covered by GASBS 68. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. The District is reviewing the effects of the implementation of this statement.

GASB issued Statement No. 70 Accounting and *Financial reporting for Non-exchange Financial Guarantees* which is effective for financial statements for periods beginning after June 15, 2013. This statement established accounting and financial reporting standards for financial guarantees that are non-exchange transaction extended or received by a state or local government. A non-exchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. This statement is effective for financial statements for reporting periods beginning after June 15, 2013. The District has reviewed the statement and has determined that it does not apply to the District.

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, 2014, 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, 2014.

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.

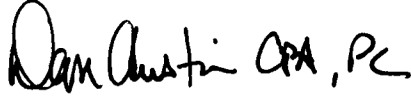
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, 2014

**State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Responses and Other Disclosures
June 30, 2014**

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? No

RESOLUTION OF PRIOR YEAR FINDINGS

13 - 1 Under Collateralized Bank Accounts - Noncompliance - Resolved

CURRENT YEAR FINDINGS

None

State of New Mexico
Upper Hondo Soil and Water Conservation District
Schedule of Audit Findings, Responses and Other Disclosures
June 30, 2014

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 26, 2014, 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, 2014, was discussed as well as other financial reporting considerations.