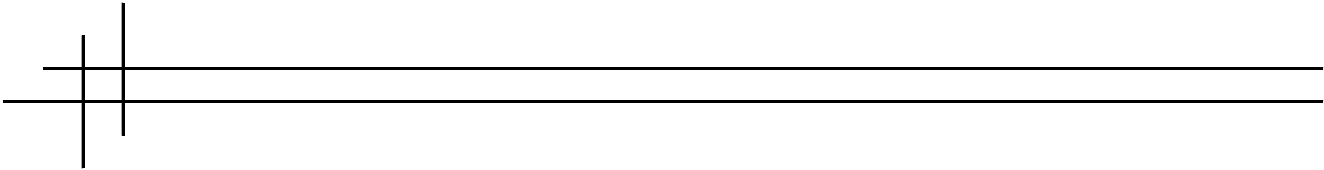




State of New Mexico
Upper Hondo Soil and Water Conservation District

Annual Financial Report
June 30, 2016

De'Aun Willoughby CPA, PC
Certified Public Accountant
Clovis, NM 88101



State of New Mexico
Upper Hondo Soil and Water Conservation District
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 For the Year Ended June 30, 2016

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State of New Mexico
Upper Hondo Soil and Water Conservation District
Official Roster
June 30, 2016

Board of Supervisors

James Cooper	Chairperson
David Cox	Vice-Chairperson
Scott Daniel	Secretary/Treasurer
Jason Price	Supervisor
Robert Runnels	Supervisor
Troy Stone	Supervisor
Vacant	Supervisor

District Personnel

Laura Johnson	Programs Director
Kristi Bonnell	Conservation Technician

De'Aun Willoughby CPA, PC

Certified Public Accountant

225 Innsdale Terrace Clovis, NM 88101

(855) 253-4313

Independent Auditor's Report

Mr. Tim Keller
State Auditor of the State of New Mexico
Board of Supervisors of the Chaves Soil and Water Conservation District

Mr. Keller and Members of the Board

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison for the general fund of Upper Hondo Soil and Water Conservation District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the 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 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 of 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 governmental activities and the major fund of the District as of June 30, 2016, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund 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 Management's Discussion and Analysis 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 Governmental Accounting Standards Board who considers it to be an essential part of the 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.

Accounting principles generally accepted in the United States of America require that the Schedules of Required Supplementary Information for the Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not

Other Information

The Vendor Schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

De'Aun Willoughby CPA PC

Clovis, New Mexico
November 17, 2016

State of New Mexico
Upper Hondo Soil and Water Conservation District
Government-Wide Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 445,995
Accounts Receivable (net of allowance for uncollectibles)	991
Taxes Receivable	3,825
Loans Receivable	2,000
Inventory	3,618
Total Current Assets	<u>456,429</u>
Noncurrent Assets	
Capital Assets	172,829
Less: Accumulated Depreciation	<u>(87,798)</u>
Total Noncurrent Assets	<u>85,031</u>
Total Assets	<u>541,460</u>
Deferred Outflows of Resources	
Deferred Outflows Related to Pensions	
Changes in Proportion	10,127
Contributions Subsequent to Measurement Date	<u>15,845</u>
Total Deferred Outflows of Resources	<u>25,972</u>
Liabilities	
Current Liabilities	
Accounts Payable	6,917
Accrued Salaries and Benefits	2,403
Compensated Absences	10,505
Current Portion of Long Term Debt	13,096
Total Current Liabilities	<u>32,921</u>
Noncurrent Liabilities	
Loans Payable	36,489
Pension Liability	94,822
Total Noncurrent Liabilities	<u>131,311</u>
Total Liabilities	<u>164,232</u>
Deferred Inflows of Resources	
Deferred Inflows Related to Pensions	
Actuarial Experience	2,100
Changes of Assumptions	37
Investment Experience	300
Total Deferred Inflows of Resources	<u>2,437</u>
Net Position	
Net Investment in Capital Assets	85,031
Unrestricted	<u>315,732</u>
Total Net Position	<u>\$ 400,763</u>

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

State of New Mexico
Upper Hondo Soil and Water Conservation District
 Government-Wide Statement of Activities
 For the Year Ended June 30, 2016

	Governmental Activities
Program Expenses:	
Conservation Programs	\$ 154,836
Personnel Services	144,486
Operating Expenses	53,034
Total Program Expenses	<u>352,356</u>
Program Revenues:	
Conservation Grant	105,294
Chemical Sales, net of cost	4,756
	<u>110,050</u>
Net Program (Expense) Revenue	<u>(242,306)</u>
General Revenues	
Property Taxes	258,424
State Allocation	14,674
Miscellaneous	5,653
	<u>278,751</u>
Change in Net Position	36,445
Net Position at Beginning of Year	<u>364,318</u>
Net Position at End of Year	<u>\$ 400,763</u>

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

State of New Mexico
Upper Hondo Soil and Water Conservation District
 Governmental Fund
 Balance Sheet
 June 30, 2016

	<u>General</u>
Assets	
Cash and Cash Equivalents	\$ 445,995
Accounts Receivable (net of allowance for uncollectibles)	991
Taxes Receivable	3,825
Loan Receivable	2,000
Inventory	3,618
Total Assets	<u>\$ 456,429</u>
Liabilities	
Accounts Payable	\$ 6,917
Accrued Salaries and Benefits	2,403
Total Liabilities	<u>9,320</u>
Deferred Inflows of Resources	
Deferred Revenue	<u>3,825</u>
Total Deferred Inflows of Resources	<u>3,825</u>
Fund Balances	
Nonspendable-Inventory	3,618
Unrestricted	439,666
Total Fund Balances	<u>443,284</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 456,429</u>

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

State of New Mexico
Upper Hondo Soil and Water Conservation District
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 June 30, 2016

Total Fund Balance - Governmental Funds \$ 443,284

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

Property taxes receivable will be collected after the period of availability, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 3,825

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital Assets	\$ 172,829	
Accumulated Depreciation	<u>(87,798)</u>	85,031

Deferred Outflows and Inflows Related to Pensions are the results of differences in expected and actual actuary experience and the difference in actuary projected and actual earnings. Also changes in proportion and differences between contributions and proportionate share of contributions.

Deferred Outflows Related to Pensions	25,972	
Deferred Inflows Related to Pensions	<u>(2,437)</u>	23,535

Long-term and certain other liabilities, including loans payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year end consist of :

Loans	(49,585)	
Pension Liability	(94,822)	
Compensated Absences	<u>(10,505)</u>	<u>(154,912)</u>

Total Net Position - Governmental Activities \$ 400,763

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

State of New Mexico
Upper Hondo Soil and Water Conservation District
Governmental Funds
Statement of Revenues, Expenditures and Changes
in Fund Balance
For the Year Ended June 30, 2016

	<u>General</u>
Revenues	
Property Taxes	\$ 254,599
State Allocation	14,674
Conservation Grant	105,294
Product Sales, net of cost	4,756
Miscellaneous	<u>5,653</u>
Total Revenues	<u>384,976</u>
Expenditures	
Current	
Conservation Programs	148,628
Personnel Services	145,130
Audit	11,471
Public Relations	9,503
Office & Postage	9,401
Utilities	7,758
Insurance	7,250
Travel and Mileage	2,080
Dues and Memberships	1,762
Building Expense	1,661
Training and Workshops	1,130
Vehicle	861
Debt Service	
Principal	13,096
Administration Fees	157
Total Expenditures	<u>359,888</u>
Excess (Deficiency) of Revenues Over Expenditures	25,088
Fund Balances at Beginning of Year	<u>418,196</u>
Fund Balance End of Year	<u>\$ 443,284</u>

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

State of New Mexico
Upper Hondo Soil and Water Conservation District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
 to the Statement of Activities
 June 30, 2016

Net Change in Fund Balance-Governmental Funds	\$	25,088
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead reported as deferred revenues. They are however, recorded as revenues in the Statement of Activities.

Property Taxes Receivable, June 30, 2015	\$	0	
Property Taxes Receivable, June 30, 2016		<u>3,825</u>	3,825

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense		(6,208)	
Capital Outlays		<u>0</u>	<u>(6,208)</u>

Pension contributions are reported as expenses in the government funds but are deferred outflows in the Statement of Net Position. Pension expense is reported in the Statement of Activities but not in the governmental funds.

Pension Contributions		15,845	
Pension Expense		<u>(12,188)</u>	3,657

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

13,096

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences, June 30, 2015		7,140	
Compensated Absences, June 30, 2016		<u>(10,153)</u>	<u>(3,013)</u>

Changes in Net Position of Governmental Activities	\$	<u><u>36,445</u></u>
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The notes to the financial statements are an integral part of this statement.

State of New Mexico

General Fund

Statement of Revenues, Expenditures, and Changes in Cash Balance

Budget and Actual (Budgetary Basis)

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues				
Property Taxes	\$ 255,000	\$ 255,000	\$ 254,599	\$ (401)
State Allocation	15,000	15,000	14,674	(326)
Conservation Grant	430,000	430,000	105,294	(324,706)
Product Sales, net of cost	13,500	13,500	3,592	(9,908)
Miscellaneous	4,500	4,500	6,653	2,153
Total Revenues	718,000	718,000	384,812	(333,188)
Expenditures				
Conservation Programs	519,000	519,000	150,235	368,765
Personnel Services	175,000	175,000	146,198	28,802
Audit	12,000	12,000	11,471	529
Public Relations	9,000	9,000	9,503	(503)
Office & Postage	19,600	19,600	9,710	9,890
Utilities	6,500	6,500	8,408	(1,908)
Insurance	12,500	12,500	7,250	5,250
Travel and Mileage	4,000	4,000	2,080	1,920
Dues and Memberships	1,500	1,500	1,762	(262)
Building Expense	6,000	6,000	1,661	4,339
Training and Workshops	5,500	5,500	1,130	4,370
Vehicle	2,000	2,000	780	1,220
Debt Service				
Principal	13,400	13,400	13,096	304
Administration Fees	0	0	157	(157)
Total Expenditures	786,000	786,000	363,441	422,559
Excess (Deficiency) of Revenues Over Expenditures	(68,000)	(68,000)	21,371	89,371
Cash Balance Beginning of Year	424,624	424,624	424,624	0
Cash Balance End of Year	\$ 356,624	\$ 356,624	\$ 445,995	\$ 89,371
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 21,371	
Net Change in Accounts Receivable			991	
Net Change in Property Taxes Receivable			3,825	
Net Change in Property Taxes Receivable			(1,000)	
Net Change in Inventory			3,618	
Net Change in Accounts Payable			(993)	
Net Change in Accrued Payroll			1,101	
Net Change in Deferred Taxes			(3,825)	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ 25,088	

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

State of New Mexico
Upper Hondo Soil and Water Conservation District
Notes to the Financial Statements
June 30, 2016

I. 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 five elected supervisors, four of whom must be landowners in the District. Two additional supervisors may be appointed to the district board. Supervisors serve a term of three years and continue in office until a successor is elected or appointed.

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

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

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To enhance the usefulness of the financial statements, the significant policies of the District are summarized below.

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 nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to significant extent on fees and charges for support. However, the District does not have any fiduciary or business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) sales of chemicals to customers and 2) 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.

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

The government-wide financial statement 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, 2016

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 30 days of the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any are recorded only when payment is due.

Property taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. The District does not have the information regarding the uncollected delinquent property taxes and thus has not recorded its share of this receivable as called for by GASB Statement 33.

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 Loan Fund is a special revenue fund that accounts for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue fund was set up to account for the district's Low Interest Loan Program. The District receives low interest loans from the New Mexico Interstate Stream Commission to lend landowners in the District funds to finance conservation projects on their property pursuant to the provisions of Section 72-14-20 NMSA 1978.

As a general rule, the effect of interfund activity, if applicable, has been eliminated from the government-wide financial statements. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Net Position and Fund Balance

Cash and Investments

The District's cash consists of demand deposits.

Taxes Receivable

Property taxes attach an enforceable lien as of January 1. Taxes are payable in equal semi-annual installments on November 10 and April 10 of the subsequent year. The taxes become delinquent thirty days after the due date. The taxes are collected by the County Treasurer and are remitted to the District in the month following collection.

Inventory

The District's inventory consists of chemicals held for sale and /or use by the District for brush control. Inventory is reported at cost in the governmental activities column in the government-wide financial statements determined using the first-in, first-out method. Inventory items are reported in governmental funds as expenditures when purchased. In addition, an asset and corresponding nonspendable fund balance is reported in the governmental fund balance sheet for inventory.

State of New Mexico
Upper Hondo Soil and Water Conservation District
Notes to the Financial Statements
June 30, 2016

Capital Assets

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

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

Vehicles and Equipment	10 years
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Accounts payable

The account payable as of the balance sheet date includes routine monthly bills for services rendered and products purchased which are paid in the following month.

Compensated Absences

It is the District's policy to permit certain employees 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 of 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 the year end, for example, as a result of resignations and retirements. The District Policy states that the maximum amount to be accrued is 80 hours.

Loan and Notes Payable

The District entered into numerous loan agreements with NMFA to provide match funding for various water trust board projects. A mill levy was passed to finance the debt service requirements.

Net Position and Fund Balance

The difference between the District's assets and liabilities is its net position. The District's net position consist of four components — invested in capital assets, which is the cost of capital assets, net of accumulated depreciation, restricted for the loan program and unrestricted net position. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation and/or are legally restricted by outside parties for use for a specific purpose. A portion of the fund balance has been reserved for the loan program. The loan program resources have been classified as restricted assets on the Statement of Net Position because their use is restricted by the lender.

State of New Mexico
Upper Hondo Soil and Water Conservation District
Notes to the Financial Statements
June 30, 2016

II. Stewardship, Compliance and Accountability

A. Budgetary Information

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to April 1, the Budget Committee submits to the District Board of Supervisors a proposed revenue and expenditure budget for the fiscal year beginning July 1.
2. The Board reviews the budget proposal and makes any necessary adjustments.
3. Prior to June 1, the Board approves the budget by passing a resolution.
4. Prior to June 20, the approved budget is submitted to the State of New Mexico, Department of Finance and Administration, Local Government Division (DFA-LGD) for approval by the first Monday of September. The Board receives notice of the approved budget.

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. There were no changes made to the budget during the fiscal year. Encumbrance accounting is not utilized by the District.

B. Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis Financial Statements

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and GAAP (Generally Accepted Accounting Principles) basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budget basis for the governmental funds are presented on each individual Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget and Actual (Budgetary Basis).

Reconciliations are located at the bottom of each budget actual statement.

State of New Mexico
Upper Hondo Soil and Water Conservation District
Notes to the Financial Statements
June 30, 2016

III. Detailed Notes on all Funds
A. Cash and Investments

	Account Type	Bank Balance 6/30/16	Reconciled Balance 6/30/16
Washington Federal			
Upper Hondo SWCD	Checking-Interest bearing	\$ 177,060	\$ 177,060
Upper Hondo SWCD	Checking-Interest bearing	30,298	30,298
		207,358	\$ 207,358
	Less: FDIC coverage	(207,358)	
	Amount uninsured	\$ 0	

	Account Type	Bank Balance 6/30/16	Reconciled Balance 6/30/16
City Bank			
Upper Hondo SWCD	Checking-Interest bearing	\$ 66,379	\$ 39,459
Upper Hondo SWCD-General	Checking-Interest bearing	152,678	147,797
Upper Hondo SWCD-WZTB	Checking-Noninterest bearing	39,188	39,189
Upper Hondo Reserve Account	Checking-Interest bearing	12,192	12,192
		270,437	\$ 238,637
	Less: FDIC coverage	(250,000)	
	Amount uninsured	\$ 20,437	
	50% collateral requirement	10,219	
	Pledged securities	100,667	
	Over (Under) requirement	\$ 90,449	

The following securities are pledged:

Description	CUSIP #	Market Value	Maturity Date	Location
Ruidoso NM Mun SD	781338IIZ4	\$ 50,018	08/01/2016	San Antonio, TX
Clovis NM Mun SD #001	189414LD5	50,649	08/01/2017	San Antonio, TX
		\$ 100,667		

The difference between the bank balance and the reconciled balance is outstanding deposits, outstanding checks and pending bank adjustments.

Custodial Credit Risk-Deposits

Depository Account	Bank Balance
Insured	\$ 457,358
Collateralized	
Collateral held by the pledging bank in District's name	20,437
Uninsured and uncollateralized	0
Total Deposits	\$ 477,795

Custodial Credit Risk — Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016 none of the Districts bank balances of \$477,795 were exposed to custodial credit risk.

State of New Mexico
Upper Hondo Soil and Water Conservation District
Notes to the Financial Statements
June 30, 2016

B. Capital Assets

	Beginning Balance 6/30/15	Additions	Deletions	Ending Balance 6/30/16
Capital Assets, being Depreciated				
Buildings & Improvements	\$ 119,933	\$ 0	\$ 0	\$ 119,933
Vehicles & Equipment	52,896	0	0	52,896
Total Capital Assets, being Depreciated	<u>172,829</u>	<u>0</u>	<u>0</u>	<u>172,829</u>
Less Accumulated Depreciation				
Buildings & Improvements	35,266	3,075	0	38,341
Vehicles & Equipment	46,324	3,133	0	49,457
Total Accumulated Depreciation	<u>81,590</u>	<u>6,208</u>	<u>0</u>	<u>87,798</u>
	<u>\$ 91,239</u>	<u>\$ (6,208)</u>	<u>\$ 0</u>	<u>\$ 85,031</u>

Depreciation expense was charged to governmental activities as follows:

Conservation	\$ 6,208
Total depreciation expenses	<u>\$ 6,208</u>

C. Long Term Debt

The District has entered into the following loans non interest bearing with the New Mexico Finance Authority for the purpose of funding projects for conservation.

A summary of activity in the Long-Term Debt is as follows:

	Beginning Balance 6/30/15	Reductions	Ending Balance 6/30/16	Amounts Due Within One Year
Loans and Notes Payable				
NMFA-WTB #174	\$ 21,687	\$ 5,401	\$ 16,286	\$ 5,401
NMFA-WTB #175	10,844	2,701	8,143	2,701
NMFA-WTB #204	30,150	4,994	25,156	4,994
	<u>\$ 62,681</u>	<u>\$ 13,096</u>	<u>\$ 49,585</u>	<u>\$ 13,096</u>
Compensated Absences	<u>\$ 4,207</u>	<u>\$ 9,089</u>	<u>\$ 2,791</u>	<u>\$ 10,505</u>

The debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ 13,096	0	\$ 13,096
2018	13,096	0	13,096
2019	13,096	0	13,096
2020	5,117	0	5,117
2021	4,994	0	4,994
2022	186	0	186
	<u>\$ 49,585</u>	<u>\$ 0</u>	<u>\$ 49,585</u>

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Notes to the Financial Statements
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IV. Other Information

A. Retirement Plan

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C- 1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 4420.

Benefits provided. For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf.

Contributions. The contribution requirements of defined benefit plan members and the District are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY15 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures of the PERA FY15 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2015.pdf. The PERA coverage options that apply to District are Municipal Plan 1. Statutorily required contributions to the pension plan from the District were \$15,845 for the year ended June 30, 2016.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The District's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Division Municipal Plan 1 at June 30, 2016, the District reported a liability of \$94,822 for its proportionate share of the net pension liability. At June 30, 2015, the District's proportion was 0.0093 percent, which was an increase from its proportion measured as of June 30, 2014 of 0.0017%.

For the year ended June 30, 2016, the District recognized pension expense of \$11,836. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience \$	0 \$	(2,100)
Changes of assumptions	0	(37)
Net difference between projected and actual earnings on pension plan investments	0	(300)
Changes in proportion and differences between the District's contributions and proportionate share of	10,127	0
District's contributions subsequent	15,845	0
Total	\$ 25,972	\$ (2,437)

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\$15,845 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (2,511)
2017	(2,511)
2018	(2,511)
2019	5,096
Total	\$ (2,437)

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2014 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, Open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
(1) Investment rate of return	7.75% annual rate, net of investment expense
(2) Projected benefit payment	100 years
(3) Payroll growth	3.50% annual rate
(4) Projected salary increases	3.50 to 14.25% annual rate
(5) Includes inflation at	3.00% annual rate
(6) Mortality Assumption	RP-2000Mortality Tables (combined table for healthy post-retirements, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
(7) Experience Study Dates	July 1, 2008 to June 30, 2013

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	21.10%	5.00%
International Equity	24.80%	5.20%
Private Equity	7.00%	8.20%
Core and Global Fixed Income	26.10%	1.85%
Fixed Income Plus Sectors	5.00%	4.80%
Real Estate	5.00%	5.30%
Real Assets	7.00%	5.70%
Absolute Return	4.00%	4.15%

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following table shows the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the District's net pension liability in the Municipal Plan PERA Fund Divisions that the District participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher 8.75% than the single discount rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The District's proportionate share of the net pension liability	\$ 161,443	\$ 94,822	\$ 39,490

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY15 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

B. Risk Management

The District is exposed to various risks of loss due to torts, theft or damage of assets, errors and omissions and natural disasters. The District's supervisors and employees are covered by an errors and omissions liability policy purchased by the New Mexico State University, Department of Agriculture, to which the District is administratively attached. The limits for this policy are \$1,000,000 for each wrongful act and \$1,000,000 for the policy aggregated. The District is required to obtain a corporate fidelity bond on behalf of persons responsible for District assets. The District currently maintains a \$100,000 fidelity bond on its Program Director and Board of Supervisors. The District has not sustained any losses during the last several years and is not a defendant in any lawsuit.

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Upper Hondo Soil and Water Conservation District
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C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at the time, although the government expects such amounts, if any to be immaterial.

D. Subsequent Events

Subsequent events were evaluated through November 17, 2016, which is the date the financial statements were available to be

Required Supplemental Information

State of New Mexico
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 Schedules of Required Supplementary Information for Pension Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.0076%	0.0093%
District's proportionate share of the net pension liability	\$ 59,288	\$ 94,822
District's covered-employee payroll	\$ 96,720	\$ 99,653
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	163.14%	105.09%
Plan fiduciary net position as a percentage of the total pension liability	81.29%	76.99%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of District's Contributions

Last 10 Fiscal Years*

	<u>2015</u>	<u>2015</u>
Contractually required contribution	\$ 7,227	\$ 7,374
Contributions in relation to the contractually required contribution	<u>7,227</u>	<u>7,374</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$ 96,720	\$ 99,653
Contributions as a percentage of covered-employee payroll	7.47%	7.40%

* These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

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

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Notes to Required Supplementary Information for Pension Plan
For the Year Ended June 30, 2016

Changes in Benefit Terms – The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY14 audit available at:
http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf.

Changes of Assumptions – The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at:
http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-302015%20PERA%20Valuation%20Report_FINAL.pdf.

Other Supplemental Information

Upper Hondo Soil and Water Conservation District

Vendor Schedule

For the Year Ended June 30, 2016

<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentatio n of eligibili ty for in-state preference?</i>	<i>Did the Vendor provide documentatio n of eligibili ty for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
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None

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*

Independent Auditor's Report

Mr. Tim Keller
State Auditor of the State of New Mexico
Board of Supervisors of the Chaves Soil and Water Conservation District

Mr. Keller and Members of the Board

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, each major fund and the budgetary comparisons of the general and major special revenue fund of Chaves Soil and Water Conservation District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 are less severe than a material weakness, yet important enough to merit attention by those charged with governance. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be significant deficiencies. 2016-001, 2016-002, and 2016-003.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of 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 which is described in the accompanying Schedule of Findings and Responses; 2016-001, 2016-002, and 2016-003.

The District's Responses to Findings

The District's responses to the findings identified in our audit as described in the accompanying Schedule of Findings and Responses. The Village's response was not subject to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

De'Ann Willoughby CPA PC

Clovis, New Mexico
November 17, 2016

Prior Year Audit Findings

	<u>Status</u>
2015-001 Late Audit Report	Resolved

Current Year Audit Findings

2016-001 I-9's-Compliance and Internal Control-Significant Deficiency

Condition

Out of 3 I-9's sampled we noted that 1 was not completed within three days of hire date.

Criteria

As per U.S. Citizens and Immigration Services Employers have certain responsibilities under immigration law during the hiring process. Employers or their authorized representative must complete Section 2 by physically examining evidence of identity and employment authorization within 3 business days of the employee's first day of employment.

Cause

The programs director was unaware of the three day rule.

Effect

Improper completion, retention or making it available for inspection fines range from \$100 to \$1,100 for each I-9.

Recommendation

We recommend additional training, supervision and review. All I-9 should be reviewed and updated as necessary. The village could use both the I-9 instructions as well as the U.S. Citizenship and Immigration Services M-274 Handbook for Employers to provide the tools needed to ensure all I-9 care completed correctly and timely.

Response

The programs director has looked into the rule and has corrected the I-9 in question.

Now that the programs director understands the importance and has the resource to complete I-9's the programs director will ensure that all future I-9's are completed timely. This finding has been

2016-002 Payroll Liabilities-Compliance and Internal Control-Significant Deficiency

Condition

Payroll liabilities when paid were not posted to liabilities but to expenditures overstating salary expenses by 16,713.69

Criteria

Good internal controls and sound business practice requires that the Village provide adequate control over payroll. Also the governing body is charged with the responsibility of ensuring the proper oversight and expenditures of funds.

Cause

They did not have a clear understanding of what a payroll liability was and posted the EFTPS payments to the salary expense account.

Effect

Expenditures were overstated by \$16,713.69. Management and other users of the financial statements were misled.

Recommendation

EFTPS payments should be posted to the payroll liability account.

Response

We had decided to outsource our payroll.

The programs director is responsible for this finding and it has been resolved.

2016-003 Cash-Compliance and Internal Control-Significant Deficiency

Condition

The banks were reconciled. However, when you add the revenues and subtract the expenditures from the beginning bank balances it does not balance to the ending reconciled cash in banks with the difference being \$1,154.74.

Criteria

Good accounting practices require the bank accounts to be reconciled to the general ledger making it possible to submit a correct financial report with DFA.

Cause

There were liabilities accounts with balances and possibility a date issue with the Quick Books software.

Effect

Management cannot make good decisions when the books and financial statements are not correct.

Recommendation

The liability accounts should be zero when posting cash basis books. If the DFA report does not balance, the error should be found.

Response

We will be sure there are no outstanding liabilities and compare the beginning cash balances plus revenues less expenditures should equal the ending reconciled cash balances.

The programs director is responsible for this finding and it has been resolved.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby CPA. However, they are the responsibility of management.

Exit Conference

An exit conference was held on November 17, 2016. Those present were David Cox-Vice-Chairperson, Laura Johnson-Programs Director, and De'Aun Willoughby, CPA.