

**WEST HAMMOND DOMESTIC WATER  
USERS ASSOCIATION, INC.  
AUDITED FINANCIAL STATEMENTS  
Year Ended December 31, 2008**

## **INTRODUCTORY SECTION**

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**WEST HAMMOND DOMESTIC WATER  
USERS ASSOCIATION, INC.  
List of Principal Officials  
December 31, 2008**

<u>Name</u>	<u>Title</u>
Jack Stant .....	President
Earl Hickam .....	Vice President
Teresa Lane.....	Secretary / Treasurer
Harvey Haisman .....	Director
Jim Stiffler .....	Director
Cleve Noble .....	Director
Donica Sharpe .....	Director
Nick Ashcroft.....	General Manager
Sam Prda.....	Accountant

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

State Auditor and the Board Members  
West Hammond Domestic Water Users Association, Inc.  
Bloomfield, New Mexico

We have audited the accompanying financial statements of the business-type activities of West Hammond Domestic Water Users Association, Inc. (the Association) as of and for the year ended December 31, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2009 on our consideration of the Association'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* and should be considered in assessing the results of our audit.

Management's discussion and analysis, on pages vii through x, is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large, looping initial "D".

**Farmington, New Mexico**  
**May 26, 2009**



## **Management's Discussion and Analysis Year Ended December 31, 2008**

For financial reporting purposes, West Hammond Water Users Association, Inc. (the Association) is considered a special purpose, primary government according to the Attorney General's Opinion. Accordingly, the Association's financial statements have been presented using the economic resources measurement focus and accrual basis accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The report consists of Managements' Discussion and Analysis, the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the Association.

The discussion and analysis of the Association's financial statements provides an overview of its financial activities as of and for the year ended December 31, 2008.

### **Financial Highlights**

- The Association's assets exceeded its liabilities at the close of the fiscal year December 31, 2008 by \$2,422,574 (net assets). This was an decrease of \$58,202 from December 31, 2007 net assets of \$2,480,776. Of the December 31, 2008 net assets, \$873,624 is unrestricted.
- The Association's financial position decreased in 2008 as compared to prior year. Net assets decreased during the year by \$58,202. Depreciation expense of \$113,018 are included in this decrease of net assets. Also, included in the net asset decrease is income from Lee/Hammond Treatment Plant of \$36,283.
- The Association's cash and cash equivalents reflect \$246,653 at December 31, 2008. Accounts receivable from water sales to members was \$30,414 at December 31, 2008.

## The Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Net Assets

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets report the Association's net assets and how they have changed. Net Assets is defined as the difference between assets and liabilities. It is one indicator that measures the Association's financial health, or position. Non-financial factors are also important to consider, including number of members and the condition of the system.

These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the Association's assets, liabilities, and net assets as of December 31, 2007 and 2006.

### Net Assets, as of December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current Assets	\$ 301,235	\$ 325,353
Capital Assets, Net	2,267,768	2,373,852
Non-Current Assets	<u>650,912</u>	<u>613,332</u>
Total Assets	3,219,915	3,312,537
<b>Liabilities</b>		
Current Liabilities	\$ 84,057	\$ 73,568
Non-Current Liabilities	<u>713,284</u>	<u>758,193</u>
Total Liabilities	797,341	831,761
<b>Net Assets:</b>		
Invested in Capital Assets	\$ 1,509,597	\$ 1,572,082
Restricted Expendable	39,353	38,056
Unrestricted	<u>873,624</u>	<u>870,638</u>
Total Net Assets	\$ 2,422,574	\$ 2,480,776

### Analysis of Net Assets

The Association's assets exceeded liabilities by \$2,422,574 at the close of the fiscal year. Net assets consist of 62% Capital Assets (e.g. project works, buildings, and equipment) or \$1,509,597. The Association uses these capital assets in its mission to deliver treated water to members in the Association's service area; consequently, these assets are not available for future spending. Restricted expendable net assets consist of 2% of net assets or \$39,353. These assets are restricted for future debt service payment. Unrestricted net assets are available for the Association's ongoing operations and are \$873,624.

The following table summarizes the Association's revenue, expenses, and changes in net assets for the year ended December 31, 2008 and 2007:

**Revenue, Expenses and Changes in Net Assets**

	<u>2008</u>	<u>2007</u>
Operating Revenues	\$ 495,920	\$ 494,699
Operating Expenses	<u>573,813</u>	<u>453,702</u>
Operating income (loss)	(77,893)	41,185
Nonoperating Revenues (Expenses)	<u>19,691</u>	<u>182,192</u>
Change in Net Assets	\$ (58,202)	\$ 223,377

During the fiscal year, the Association's net assets decreased by \$58,202. The 2007 nonoperating revenue included state grants (capital) of \$170,000. Operating revenues increased by \$1,033.

The Association's does not legally adopt a budget.

**Operating Revenues**

The following table summarizes the Association's operating revenues for the fiscal year ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Charges for services	\$ 473,337	\$ 477,699
Other operating revenues	<u>22,583</u>	<u>17,188</u>
Total Operating Revenues	\$ 495,920	\$ 494,887

**Operating Expenses**

The following table summarizes the Association's operating expenses for the fiscal year ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Personnel services	\$ 119,894	\$ 102,786
Maintenance, operations and contractual services	78,853	61,803
Material and supplies	226,316	183,016
Office expenses	35,732	14,033
Depreciation	<u>113,018</u>	<u>92,064</u>
Total Operating Expenses	\$ 573,813	\$ 453,702

## Non-Operating Revenues and Expenses

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest income	\$ 6,606	\$ 7,247
Interest expense	(23,198)	(28,715)
State grants (capital)	-	170,000
Income from Lee?hammond Treatment Plant	<u>36,283</u>	<u>33,660</u>
Total Nonoperating Revenues	\$ 19,691	\$ 182,192

## Capital Assets and Long-Term Debt

The Association added \$6,934 and \$202,799 in capital assets during the fiscal year ended December 31, 2008 and 2007. The Association received a state grant of \$170,000 for radio-read meters, during the year ended December 31, 2007. Depreciation expenses for the year ended December 31, 2008 and 2007, amounted to \$113,018 and \$92,064, respectively.

The Association made principal payments in the amount of \$43,599 and \$42,304 during the years ended December 31, 2008 and 2007, respectively.

## Factors Impacting Future Periods

The Association will continue maintenance on the delivery system of treated water to members in its service area.

Effective March 27, 2009, the Association changed its form of organization from a not-for-profit association under the Sanitary Projects Act, NMSA 3-29-20 back to a not-for-profit cooperative.

## Comparison of Budget to Actual

The Association does not legally adopt a budget.

## **BASIC FINANCIAL STATEMENTS**

**WEST HAMMOND DOMESTIC WATER USERS ASSOCIATION, INC.  
STATEMENT OF NET ASSETS**

**December 31, 2008**

<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 246,653
Accounts receivable	30,414
Inventory	18,227
Prepaid expenses	<u>5,941</u>
<b>Total Current Assets</b>	<u>301,235</u>
<b>NONCURRENT ASSETS:</b>	
Restricted assets - cash	39,353
Investment in Lee/Hammond Treatment Plant	611,559
Capital assets not being depreciated	51,000
Capital assets, net of accumulated depreciation	<u>2,216,768</u>
<b>Total Noncurrent Assets</b>	<u>2,918,680</u>
<b>Total Assets</b>	<u><u>\$ 3,219,915</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 11,632
Accrued interest payable	3,791
Accrued taxes payable	10,983
Deferred revenue and deposits	12,764
Current portion of noncurrent liabilities	<u>44,887</u>
<b>Total Current Liabilities</b>	84,057
<b>NONCURRENT LIABILITIES:</b>	
Note payable - NMFA (noncurrent)	<u>713,284</u>
<b>Total Liabilities</b>	<u>797,341</u>
<b>NET ASSETS:</b>	
Invested in capital assets net of related debt	1,509,597
Restricted for debt service	39,353
Unrestricted (deficit)	<u>873,624</u>
<b>Total Net Assets</b>	<u>2,422,574</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 3,219,915</u></u>

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

**WEST HAMMOND DOMESTIC WATER USERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS**

**Year Ended December 31, 2008**

<b>OPERATING REVENUES:</b>	
Charges for services	\$ 473,337
Other operating revenues	<u>22,583</u>
<b>Total Operating Revenues</b>	<u>495,920</u>
<b>OPERATING EXPENSES:</b>	
Personnel services	119,894
Maintenance, operations and contractual services	78,853
Material and supplies	226,316
Office expenses	35,732
Depreciation	<u>113,018</u>
<b>Total Operating Expenses</b>	<u>573,813</u>
<b>Operating Income (Loss)</b>	<u>(77,893)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest income	6,606
Income from Lee/Hammond Treatment Plant	36,283
Interest expense	<u>(23,198)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>19,691</u>
<b>Increase (decrease) in net assets</b>	<b>(58,202)</b>
<b>NET ASSETS, beginning of year</b>	<u>2,480,776</u>
<b>NET ASSETS, end of year</b>	<u><u>\$ 2,422,574</u></u>

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

**WEST HAMMOND DOMESTIC WATER USERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2008**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Charges for services and other operating revenues	\$ 481,391
Payments to employees for salaries and benefits	(120,173)
Payments to suppliers	(309,453)
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>51,765</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Operating grants	-
<b>Net Cash Provided (Used) By Noncapital Financing Activities</b>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Increase in restricted cash	(1,297)
Purchases of capital assets	(6,934)
Repayment of debt	(43,599)
Interest paid on capital debt	(23,416)
<b>Net Cash Provided (Used) By Capital and Related Financing Activities</b>	<u>(75,246)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received from investments	6,606
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(16,875)
<b>CASH AND CASH EQUIVALENTS, beginning</b>	<u>263,528</u>
<b>CASH AND CASH EQUIVALENTS, ending</b>	<u>\$ 246,653</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>	
Operating income (loss)	\$ (77,893)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	113,018
Changes in:	
Accounts receivable	8,054
Inventory	(919)
Prepaid expenses	108
Accounts payable	11,632
Accrued taxes payable	279
Deferred revenue and deposits	(2,514)
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>\$ 51,765</u>

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



**WEST HAMMOND DOMESTIC WATER USERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008**

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**NOTE 1 – CREATION OF ENTITY AND BASIS OF PRESENTATION**

**Reporting Entity**

West Hammond Domestic Water Users Association, Inc. (the Association) is a not-for-profit Mutual Domestic Association established for the purpose of constructing, maintaining, and operating a water and wastewater system for members of the Association in its service area. The Association was initially incorporated in 1989 as a Cooperative Association under the provisions of the New Mexico Cooperative Corporation Act. During 2005, the Board of Directors changed its form of organization from a not-for-profit cooperative to a not-for-profit association under the Sanitary Projects Act, NMSA 3-29-20.

Under the Sanitary Projects Act, the Association remains a not-for-profit organization owned and governed by its members. It is also eligible to receive certain loans and grants from the State of New Mexico.

An Attorney General's (AG) opinion (90-30, dated December 27, 1990) concludes that entities created under the Sanitary Projects Act (SPA) are subject to the New Mexico Audit Act. Additionally, there is another AG opinion (68-38) that states Mutual Domestic Associations (MDAs) under the SPA are created for "one purpose only, and that is to establish and maintain a water system". Also, it concluded MDAs are not "other municipal corporations" and are, thus, subject to ad valorem taxes. Finally, the Attorney General Opinion 06-02 has determined that MDAs created pursuant to the SPA 1) are public bodies/political subdivisions; 2) whose revenues are "public money"; and 3) they have statutory responsibilities to abide by the Open Meetings Act, the Inspection of Public Records Act, the Procurement Code, and the Per Diem and Mileage Act.

Due to the fact that MDAs have been determined to be governmental nonprofit organizations, their financial statements must follow the government format (GASB 34). The Association had no blended or discrete component units during the year.

**Basis of Accounting**

For financial reporting purposes, the Association is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

The Association has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Association has elected not to apply FASB pronouncements issued after the applicable date.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Cash and cash equivalents**

Cash and cash equivalents include amounts in demand deposit accounts (\$68,826), cash on hand (\$500), and certificates of deposits (\$177,298). For purposes of the statement of cash flows, the Association considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Association only has deposits in banks (demand and time deposits) as of December 31, 2008.

Collateral is required for at least 50% (102% for overnight deposits) of all balances not insured by the FDIC. Obligations that may be pledged as collateral are obligations of the U.S. Government, its agencies and state and local governments. Collateral is held in safekeeping at depository institutions.

### **Accounts Receivable**

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

The Association has reviewed its customer base for concentrations of credit risk and has determined that no individual customer or group of customers engaged in similar activities represent a material concentration of credit risk to the Association.

### **Inventory**

Inventory is valued at cost using the first-in first-out method.

### **Capital assets**

Capital assets are recorded at original cost, or fair value if donated. The Association's capitalization policy for moveable equipment includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. The Association includes software purchased with a piece of equipment in the cost of capitalization. This total cost is depreciated over the useful life of the equipment. In compliance with AICPA SOP 98-1, software purchased for internal use is capitalized and depreciated. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 10 years for equipment, 20 years for water system assets, and 40 years for buildings.

### **Compensated Absences**

The Association does not pay for unused vacation and sick leave upon termination; therefore, amounts are not accrued.

## **Net assets**

Net assets are classified as follows:

*Invested in capital assets, net of related debt* represent the Association's total investment in capital assets, net of outstanding debt related to those capital assets.

*Restricted net assets* represent those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. *Restricted expendable* net assets are resources that the Association is legally or contractually obligated to spend in accordance with imposed restrictions by third parties. *Restricted non-expendable* net assets consist of endowment and similar funds in which third parties have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. There are no restricted non-expendable net assets as of December 31, 2008.

*Unrestricted net assets* consist of those operating funds over which the governing board retains full control to use in achieving any of its authorized purposes.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Association's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

## **Revenues**

Revenues are classified as operating or non-operating according to the following criteria:

*Operating revenue* include activities that have the characteristics of an exchange transaction, such as a) charges for services and fees, net of allowance for uncollectible allowance.

*Non-operating revenues* include activities that have the characteristics of non-exchange transactions, such as a) capital grants; and b) investment income. Grant revenue is recognized when the eligibility requirements are met.

## **Expenses**

Expenses are classified as operating or non-operating according to the following criteria:

*Operating expenses* include activities that have the characteristics of an exchange transaction, such as a) employee salaries, benefits, and related expense; b) maintenance, operations and contractual services; c) material and supplies; d) office expenses; and e) depreciation expenses related to Association capital assets.

*Non-operating expenses* include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 – *Reporting Cash Flows of Proprietary and non-expendable Trust Funds and Governmental Entries That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

**Tax Status**

The Association operates as not-for-profit association and has received exempt status under Code Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**Budgets**

The Association does not adopt a legal budget.

**Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

Citizens Bank checking #152436401.....	\$ 65,014
Citizens Bank checking #313917401.....	3,841
Bank of the Southwest CD #3004000014.....	57,243
Bank of the Southwest CD #3004000023.....	20,660
Bank of America CD #91000104741944.....	21,940
Bank of America CD #91000104719154.....	25,187
Bank of America CD #91000085135983.....	52,268
Petty cash.....	<u>500</u>
Total.....	\$ <u>246,653</u>

**Custodial Credit Risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. State statute requires that the bank deposits in excess of FDIC insurance be 50% collateralized. As of December 31, 2008, the Association was in compliance with state statute. The carrying amount of the Association's deposits was \$246,153 and the bank balance was \$255,065 as of December 31, 2008. Of the bank balance, \$255,065 was covered by federal depository insurance, \$0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name, and \$0 was uncollateralized. The custodial credit risk is \$0.

The pledged security has a maturity date of 12/1/2034, Cusip #31394BW26, market value of \$150,791 and is held at Federal Home Loan Bank Dallas.

**NOTE 4 – CAPITAL ASSETS**

The following is a summary of changes in capital assets during the fiscal year:

<u>Business-type activities</u>	<u>January 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2008</u>
<b>Non-Depreciable Assets:</b>				
Land	\$ 51,000	\$ -	\$ -	\$ 51,000
Construction in progress	178,845	-	(178,845)	-
<b>Total Non-Depreciable Assets</b>	<b>229,845</b>	<b>-</b>	<b>(178,845)</b>	<b>51,000</b>
<b>Depreciable Assets:</b>				
Water system	3,212,090	-	178,845	3,390,935
Buildings	90,567	-	-	90,567
Equipment	160,966	6,934	(17,833)	150,067
<b>Total Depreciable Assets</b>	<b>3,463,623</b>	<b>6,934</b>	<b>161,012</b>	<b>3,631,569</b>
<b>Total Governmental Assets</b>	<b>3,693,468</b>	<b>6,934</b>	<b>(17,833)</b>	<b>3,682,569</b>
<b>Accumulated Depreciation:</b>				
Water system	(1,140,428)	(97,731)	-	(1,238,159)
Buildings	(59,413)	(3,380)	-	(62,793)
Equipment	(119,775)	(11,907)	17,833	(113,849)
<b>Total Accumulated Depreciation</b>	<b>(1,319,616)</b>	<b>(113,018)</b>	<b>17,833</b>	<b>(1,414,801)</b>
<b>Net Capital Assets</b>	<b>\$ 2,373,852</b>	<b>\$ (106,084)</b>	<b>\$ -</b>	<b>\$ 2,267,768</b>

As of December 31, 2008 the Association adjusted the cost of the meters from construction in progress to water system.

**NOTE 5 - LONG-TERM DEBT**

During the year ended December 31, 2008, the following changes occurred in long-term debt:

	<u>Balance</u> <u>12/31/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/08</u>	<u>Due Within</u> <u>One Year</u>
NP - NMFA	\$ 801,770	\$ -	\$ 43,599	\$ 758,171	\$ 44,887
NP - Other	-	-	-	-	-
<b>Total</b>	<b>\$ 801,770</b>	<b>\$ -</b>	<b>\$ 43,599</b>	<b>\$ 758,171</b>	<b>\$ 44,887</b>

**Note Payable – NMFA**

Installment note payable to the New Mexico Finance Authority, payable in monthly installments of \$5,639, including interest of 3%, due in 2022, and secured by water system assets.

Long-term debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 31, 2009.....	44,887	22,073	66,960
December 31, 2010.....	46,237	20,706	66,943
December 31, 2011.....	47,628	19,298	66,926
December 31, 2012.....	49,060	17,847	66,907
December 31, 2013.....	50,536	16,353	66,889
December 31, 2014 - 2018.....	276,412	57,737	334,149
December 31, 2019 - 2022.....	<u>243,411</u>	<u>14,475</u>	<u>257,886</u>
Debt service requirements.....	758,171	168,489	926,660
Less current portion.....	<u>(44,887)</u>	<u>(22,073)</u>	<u>(66,960)</u>
Long-term debt, net.....	<u>\$713,284</u>	<u>\$146,416</u>	<u>\$859,700</u>

**NOTE 6 - CONTINGENCIES AND COMMITMENTS**

**Grants**

The Association receives financial assistance from federal and state sources in the form of grants and entitlements. The disbursements of the funds received are generally limited to specific compliance requirements as specified in the grant agreement. The Association believes that liabilities resulting from disallowed claims, if any, will not have a material effect on the Association's financial position at year end.

**Risk Management**

The Association has purchased commercial insurance that transfers risks of loss to an unrelated party. This coverage minimizes the Association's retained risks of loss up to the policy limits.

**NOTE 7 - SUPPLEMENTAL CASH FLOW DISCLOSURES**

The following is a summary of additional cash flow disclosures required:

Interest paid of \$23,416 during the year ended December 31, 2008.

**NOTE 8 - INVESTMENT IN LEE/HAMMOND WATER TREATMENT PLANT**

The Association has entered into an agreement with Lee Acres Water Users Association, Inc. to build, operate and maintain a water treatment plant. The water will be used by both entities which each own a 50% interest in the water treatment plant (Lee/Hammond Water Treatment Plant).

The investment is reported on the equity method of accounting. This method of accounting reports income and expenses as accrued. The carrying value of the investment equals the market value. The treatment plant began operations in February 1999 and has a calendar year end of December 31. The amount recorded on the statement of financial condition represents the cost investment plus the Association's share of net income. The investment is shown on the statement of financial condition as a single amount and the Association's share of earnings is reported on the statement of activities as a single amount.

A condensed financial summary as of December 31, 2008 is as follows:

Cash .....	\$	62,237
Accounts receivable.....		24,896
Fixed assets, net.....		2,589,374
Other assets.....		619,568
Payables and accrued liabilities.....		(22,890)
Debt .....		<u>(2,050,066)</u>
Net assets - unrestricted.....	\$	<u>1,223,119</u>

A condensed financial summary for the year ended December 31, 2008 is as follows:

Operating revenues.....	\$	419,773
Operating expenses.....		(370,969)
Interest and other income.....		<u>23,763</u>
Net income.....	\$	<u>72,567</u>

Revenues from charges to the Association totaled \$167,063 for the year ended December 31, 2008.

The Association is jointly and severability liable for the debt incurred by the Lee/Hammond Water Treatment Plant totaling \$2,050,066. Debt service during the year ended December 31, 2008 included \$154,274 of principal and \$110,095 of interest expense.

**NOTE 9 – RESTRICTED CASH**

Restricted cash (not included in cash and cash equivalents) consists of a debt service account at New Mexico Finance Authority with a balance of \$39,353 as of December 31, 2008.

**NOTE 10 – SUBSEQUENT EVENT**

Effective March 27, 2009, the Association changed its form of organization from a not-for-profit association under the Sanitary Projects Act, NMSA 3-29-20 back to a not-for-profit cooperative.

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**COMPLIANCE SECTION**

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**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**

State Auditor and the Board Members  
West Hammond Domestic Water Users Association, Inc.  
Bloomfield, New Mexico

We have audited the financial statements of the business-type activities of West Hammond Domestic Water Users Association, Inc. (the Association) as of and for the ended December 31, 2008, and have issued our report thereon dated May 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting (2006-1, 2006-2 and 2006-3).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association'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 that are required to be reported under *Government Auditing Standards*.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Association's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the board, management, New Mexico Legislature, New Mexico State Department of Finance and Administration – Local Government Division, federal and state grantors, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



**Farmington, New Mexico  
May 26, 2009**

**WEST HAMMOND DOMESTIC WATER USERS ASSOCIATION, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended December 31, 2008**

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**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the Association.
2. No material weaknesses relating to the audit financial are reported in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Association were disclosed during the audit.
4. Single audit not required.

**B. Findings - Financial Statements Audit**

**PRIOR YEAR FINDINGS**

- 2006-1 - Inadequate segregation of accounting duties – repeated in current year.  
2006-2 – General ledger accounts not reconciled on a timely basis – repeated in current year.  
2006-3 – Auditor preparation of the audited financial statements – repeated in current year.

**2006-1 – Inadequate Segregation of Accounting Duties**

**Condition**

The Association has one accounting person that performs all of the accounting duties.

**Criteria**

The Association should establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

**Cause**

The Association has limited accounting staff.

**Effect**

Errors could occur and not be discovered on a timely basis.

**Recommendation**

The Association should establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

**Management Response**

The Association will try to establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

## **2006-2 – General Ledger Accounts not Reconciled on a Timely Basis**

### **Condition**

The Association does not have policies and procedures for reconciling the general ledger accounts on a timely basis.

### **Criteria**

Good accounting practices require that all general ledger accounts be reconciled on a timely basis.

### **Cause**

The Association does not have policies and procedures for reconciling the general ledger accounts on a timely basis.

### **Effect**

Errors could occur and not be discovered on a timely basis.

### **Recommendation**

The Association should establish policies and procedures for reconciling the general ledger accounts on a timely basis.

### **Management Response**

The Association will establish policies and procedures for reconciling the general ledger accounts on a timely basis.

## **2006-3 – Auditor Preparation of Financial Statements**

### **Condition**

The auditor prepared the audited financial statements (including footnote disclosures).

### **Criteria**

A system of internal control over financial reporting includes controls over financial statement preparation (including footnote disclosures).

### **Cause**

The Association does not have controls over the preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

### **Effect**

The financial statements (including footnotes) could have misstatements that are not discovered on a timely basis.

### **Recommendation**

The Association should adopt policies and procedures for controls over financial statement preparation (including footnotes).

### **Management Response**

The Association will consider adopting policies and procedures for controls over financial statement preparation (including footnotes).

**WEST HAMMOND MUTUAL DOMESTIC WATER ASSOCIATION, INC.  
EXIT CONFERENCE  
Year Ended December 31, 2008**

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An exit conference was held on May 26, 2008, and the following were in attendance:

**Association:**

President.....	Jack Stant
Manager.....	Nick Ashcroft

**David Berry, CPA, PC:**

*David Berry, CPA*

**Required Disclosure**

The Association's financial statements were prepared by David Berry, CPA, PC. The Association is responsible for the contents of the financial statements and the notes therein.

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