

**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2008

(With Independent Auditor's Report Thereon)

**FIDEL A. BERNAL, PC
CERTIFIED PUBLIC ACCOUNTANT
ALBUQUERQUE, NEW MEXICO**

STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
December 31, 2008

TABLE OF CONTENTS

	<u>Page</u>
Table of Contents	1
Official Roster	2
Independent Auditor's Report	3-4
Management's Discussion and Analysis	5-7
Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Fund Net Assets	9
Statement of Cash Flows	10
Notes to the Financial Statements	11-18
Statement of Revenues, Expenditures, and Changes in Net Assets — Budget and Actual (Non-GAAP Budgetary Basis)	19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Schedule of Findings, Recommendations and Responses	22-24
Summary of Prior Year Audit Findings	25
Required Disclosure	26

STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
December 31, 2008

Official Roster

<u>Title</u>	<u>Name</u>
President	R. Russell Smith
Secretary/Treasurer	Dan Smeal
Director	George W. Riley III
Director	Kent Roberts
Director	Alan Vaughn
Business Manager	Teresa Lane

INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas
New Mexico State Auditor
And
Members of the Board of Directors
Hammond Conservancy District
Bloomfield, New Mexico

We have audited the accompanying financial statements of the business-type activities of the State of New Mexico, Hammond Conservancy District (the District) as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. We also have audited the budgetary comparison presented as supplemental information in the accompanying financial statements as of and for the year ended December 31, 2008. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above presents fairly, in all material respects, the budgetary comparison for the proprietary fund of the District 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 October 22, 2009 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* and should be considered in assessing the results of our audit.

Management's discussion and analysis, on pages 5 through 7 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America. 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, appearing to read "F. J. ...", is written above the typed text.

Albuquerque, New Mexico
October 22, 2009

STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

For financial reporting purposes, Hammond Conservancy District (the District) is considered a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. Accordingly, the District'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 District.

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

Financial Highlights

- The District's assets exceeded its liabilities at the close of the fiscal year December 31, 2008 by \$10,371,475 (net assets). This was a decrease of \$336,329 from December 31, 2007 net assets of \$10,707,804. Of the December 31, 2008 net assets, \$106,078 is unrestricted.
- The District's financial position declined in 2008 as compared to prior year. Net assets decreased during the year by \$336,329. Depreciation expense of \$313,692 is included in this decrease of net assets.
- The District's cash and cash equivalents reflect \$134,882 at December 31, 2008. All excess cash assets are invested in certificates of deposit. In addition, funds have been designated for future operation and maintenance and pump replacement in the amount of \$74,617.

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 District'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 District'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 District's assets, liabilities, and net assets as of December 31, 2008 and 2007.

Analysis of Net Assets

The District's assets exceeded liabilities by \$10,371,475 at the close of the fiscal year. Net assets consist of 99.8% Capital Assets (e.g. project works, buildings, and equipment) or \$10,396,279. The District uses these capital assets in its mission to deliver irrigated water to land owners in the District's service area; consequently, these assets are not available for future spending. Net Assets also consist of restricted assets in the amount of \$74,617. Unrestricted net assets are available for the District's ongoing operations and are \$106,078.

STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

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

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current Assets	\$ 106,080	\$ 159,506
Capital Assets, Net	10,396,278	10,689,768
Non-Current Assets	<u>74,617</u>	<u>73,030</u>
Total Assets	10,576,975	10,922,304
<u>Liabilities</u>		
Current Liabilities	\$ 9,000	\$ 9,000
Non-Current Liabilities	<u>196,500</u>	<u>205,500</u>
Total Liabilities	205,500	214,500
<u>Net Assets</u>		
Invested in Capital Assets	\$ 10,190,779	\$ 10,475,268
Restricted Expendable	74,617	73,030
Unrestricted	<u>106,079</u>	<u>159,506</u>
Total Net Assets	\$ 10,371,475	\$ 10,707,804

The following table summarizes the District'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	\$ 210,696	\$ 214,688
Operating Expenses	<u>598,641</u>	<u>577,724</u>
Operating Loss	(387,945)	(363,036)
Non-operating Revenues (Expenses)	<u>51,616</u>	<u>73,422</u>
Decrease in Net Assets	\$ (336,329)	\$ (289,614)

During the fiscal year, the District's net assets decreased by \$336,329. This decrease represents 160% of revenues. Operating revenues decreased by \$3,992 (2% decrease).

The District's budget increased proportionately to accommodate increase in fees.

Operating Revenues

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

	<u>2008</u>	<u>2007</u>
Charges for services	\$ 204,193	\$ 207,853
Other operating revenues	<u>6,503</u>	<u>6,835</u>
Total Operating Revenues	\$ 210,696	\$ 214,688

STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

Operating Expenses

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

	<u>2008</u>	<u>2007</u>
Personnel services	\$ 152,748	\$ 150,276
Maintenance, operations and contractual services	106,654	93,356
Material and supplies	25,547	19,882
Depreciation	<u>313,692</u>	<u>314,210</u>
Total Operating Expenses	\$ 598,641	\$ 577,724

Non-Operating Revenues and Expenses

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

	<u>2008</u>	<u>2007</u>
Interest income	\$ 3,760	\$ 4,187
Ad valorem taxes	47,906	41,672
Operating grants	-0-	25,000
Gain (loss) on disposition of capital assets	<u>(50)</u>	<u>2,563</u>
Total Non-operating Revenues	\$ 51,616	\$ 73,422

Capital Assets and Long-Term Debt

The District added \$21,252 and \$21,538 in capital assets during the fiscal year ended December 31, 2008 and 2007. The District sold capital assets with book value of \$1,050 and with an aggregate original cost of \$4,500, during the year ended December 31, 2008. Depreciation expenses for the year ended December 31, 2008 and 2007, amounted to \$313,691 and \$314,210, respectively.

The District made principal payments in the amount of \$9,000 and \$9,000 during the years ended December 31, 2008 and 2007, respectively.

Factors Impacting Future Periods

The District will continue maintenance on the delivery system of irrigation water to land owners in its service area.

Comparison of Budget to Actual

Included in this audit report is a Budget Comparison Summary of the original budget to the final budget to the actual revenue and expenses. This report is required by the New Mexico State Auditor.

Operating revenues were under budget by \$33,104, and non-operating interest income under budget by \$240. Total expenses (operating and non-operating) were under budget by \$1,050.

- Personnel services were under budget by \$2,354.
- Maintenance, operations and contractual services were over budget by \$2,254.
- Materials and supplies were under budget by \$953.

State of New Mexico
Hammond Conservancy District
Proprietary Fund
Statement of Net Assets
As of December 31, 2008

Assets

Current assets:

Cash and cash equivalents	\$	60,265
Accounts receivable net of allowance of \$975		17,363
Due from other governments		16,375
Prepaid expenses		12,077

Total current assets		106,080
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Noncurrent assets:

Restricted assets-cash		74,617
Capital assets, net of accumulated depreciation		10,396,278

Total noncurrent assets		10,470,895
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Total Assets	\$	10,576,975
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Liabilities and net assets

Current liabilities

Current portion of noncurrent liabilities	\$	9,000
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Total current liabilities		9,000
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Noncurrent liabilities

Note payable US Department of Interior less noncurrent portion		196,500
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Total noncurrent liabilities		205,500
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Total Liabilities		205,500
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Net assets

Invested in capital assets net of related debt		10,190,779
Restricted expendable (Note 5)		74,617
Unrestricted (deficit)		106,079

Total net assets		10,371,475
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Total liabilities and net assets	\$	10,576,975
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The notes to the financial statements are an integral part of this statement

State of New Mexico
Hammond Conservancy District
Proprietary Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For The Year Ended December 31, 2008

Operating revenues:	
Charges for services	\$ 204,193
Other operating revenues	6,503
	210,696
Total operating revenues	210,696
Operating expenses:	
Maintenance, operations and contractual services	106,654
Personnel services	152,748
Materials and supplies	25,547
Depreciation	313,692
	598,641
Total operating expenses	598,641
Operating income (loss)	(387,945)
Non operating revenues and (expenses)	
Interest income	3,760
Ad valorem taxes	47,906
Gain (loss) on disposition of asset	(50)
	51,616
Total non operating revenues and (expenses)	51,616
Increase (decrease) in net assets	(336,329)
Net assets at the beginning of the year	10,707,804
Net assets at the end of the year	\$ 10,371,475

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

State of New Mexico
Hammond Conservancy District
Proprietary Fund
Statement of Cash Flows
For the Year ended December 31, 2008

Cash flows from operating activities:	
Received from customer services and fees	\$ 241,011
Cash payments to employees	(152,746)
Paid to suppliers for goods and services	(131,681)
Net cash provided (used) by operating activities	<u>(43,416)</u>
Cash flows from noncapital financing activities:	
Ad valorem taxes	<u>47,906</u>
Net cash provided (used) by noncapital financing activities	<u>47,906</u>
Cash flows from capital financing activities:	
Acquisition of fixed assets	(21,252)
Proceeds from disposition of assets	1,000
repayment of debt	(9,000)
Net cash provided (used) by capital financing activities	<u>(29,252)</u>
Cash flows from investing activities:	
Investment income	<u>3,760</u>
Net cash provided (used) by investing activities	<u>3,760</u>
NET INCREASE (DECREASE)	
CASH AND CASH EQUIVALENTS	(21,002)
Cash and cash equivalents at January 1	<u>155,884</u>
Cash and cash equivalents at December 31	<u>\$ 134,882</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (387,945)
Adjustment to reconcile operating income (loss)	
to net cash provided by operating activities:	
Depreciation	313,692
Changes in assets and liabilities:	
(increase) decrease in:	
Accounts receivable	30,315
Prepaid insurance	<u>522</u>
Net cash provided (used) by operating activities	<u>\$ (43,416)</u>

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

**HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

NOTE 1- CREATION OF ENTITY AND BASIS OF PRESENTATION

Reporting Entity

The District was created by decree of the State of New Mexico, Chapter 75, New Mexico State Statutes Annotated 1953, as a political subdivision of the State in April 1958. The District participated in the Colorado River Storage Project, pursuant to an agreement with the Department of Interior, subject to Federal Reclamation Laws, beginning in 1959. The Project accomplished the construction of a diversion dam, main canal, pumping plant and associated water transportation system, and headquarters. Subsequent to the development period, the District assumed responsibility for the operation and maintenance of the Project to deliver irrigation water to land owners located within Bloomfield, New Mexico. The District is governed by a Board of Directors elected by the members of the District. The Board of Directors of the District has decision-making authority, the power to designate management, and the ability to significantly influence operations and primary accountability for fiscal matters. Based on the application of these criteria no fiduciary funds or component units were included in the financial statements.

Basis of Accounting

For financial reporting purposes, the District 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 proprietary fund financial statements are reported using 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The district uses an enterprise fund for which a fee is charged to an external user.

The government uses a proprietary fund to record all of its financial transactions.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District 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, cash on hand, and certificates of deposits.

State statutes authorize the District to invest excess funds in United States bonds or treasury certificates or other instruments backed by the full faith and credit of the United States Government.

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. As of October 3, 2008 the FDIC limit was temporarily raised from \$100,000 to \$250,000 until June 30, 2010.

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2008

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Accounts Receivable

Land within the District is statutorily classified as Class A (irrigable) and Class B (non-irrigable) land. Class A land owners pay for water services as follows:

Levies are charged at the rate of \$12 per acre for approximately 3,933 acres of authorized irrigable land. Water usage is charged at the rate of \$18.50 per acre. Each Class A land owner is charged \$60 per year to provide additional funds for operations.

The District is required to provide service and grant credit to a diverse customer base within its service territory. The District may require security deposits prior to providing service to customers depending upon an assessment of credit worthiness. The District reviews customer accounts receivable on a regular basis and has an accounts receivable collection policy.

The District 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 District.

Due from Other Governments

Intergovernmental receivables include amounts due from grantors for grants for specific programs and capital projects. Program grants and capital grants for general fixed assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are deferred. Capital grants for fixed asset additions to the proprietary funds are recorded as receivables and a corresponding increase to contributions in aid of construction when reimbursable project costs are incurred.

The District receives indirect cost reimbursements from the Bureau of Reclamation grant. These revenues are for expenses incurred in performing administrative functions on behalf of the project. The associated expense is included as a cost of the constructed assets.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the year-end are recorded as prepaid items.

Restricted Assets

The restricted assets consist of certificates of deposit required for compliance with various debt agreements.

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2008

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital assets

Capital assets are recorded at original cost, or fair value if donated. The District'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 District 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 to 50 years for project works and headquarters, 7 to 10 years for shop and maintenance equipment, and 5 to 10 years for office and transportation equipment.

Compensated Absences

It is the policy of the District to permit certain employees to accumulate a limited amount of earned but unused vacation leave, which will be paid to employees upon separation from the District. The cost of earned but unpaid vacation leave is normally recognized in proprietary funds when the benefit vests to the employee and becomes a legal liability to the District. It is the policy of the District to allow employees to take their vacation leave prior to the next irrigation season. At December 31, 2008, substantially all of the accumulated compensated absences had been used prior to year-end, and no liability was accrued. The District does not pay for unused sick leave upon termination: therefore, amounts are not accrued for sick leave liability.

Net assets

Net assets are classified as follows:

Invested in capital assets, net of related debt represent the District'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 District 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 District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2008

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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. General (ad valorem) taxes are collected by the San Juan County Treasurer and distributed monthly to the District. Class A and B landowners pay property taxes based on the assessed valuation as of January 1st of each year. The tax levy is payable in two installments, November 10th and April 10th. The property taxes are considered delinquent and subject to lien, penalty and interest, 30 days after the date on which they are due. Property taxes are recognized as revenue when levied by San Juan County Treasurer.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been 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) utilities, supplies, and other services; d) professional fees; and e) depreciation expenses related to District property, plant, and equipment.

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 income generated by the District is excluded from federal income taxes under section 115(a) of the Internal Revenue Code. The District is exempt under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Income generated from activities unrelated to the District's exempt purpose is subject to tax under Internal Revenue Code section 511.

Budgets

According to State statute, the District adopts and approves an annual non-appropriated budget adopted on a cash (non-GAAP) basis. Budgetary control is prepared at the fund level. Once adopted, the Board is authorized to amend the budget at the fund level.

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2008

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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- LEGAL COMPLIANCE - BUDGETS

Prior to June 1, the Business Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayers comments. Prior to September 1, the budget is legally enacted through passage of a resolution.

The Business Manager is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors. Expenditures of the District may not legally exceed appropriations at the level at which the budget is adopted, that is, expenditures in each fund may not exceed the budgeted appropriation for that fund.

Budgets for proprietary enterprise funds are adopted on a cash (non-GAAP) basis.

NOTE 4- CASH AND CASH EQUIVALENTS

Custodial Credit Risk — deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statute requires that the bank deposits be 50% collateralized. As of December 31, 2008, the District was in compliance with state statute.

At December 31, 2008, the carrying amount of the District's deposits was \$134,882 and the bank balance was \$145,571 as of December 31, 2008. Of this balance \$145,571 was covered by federal depository insurance and therefore, no deposits were subject to custodial credit risk.

Depository	Account Name	Maturity Date	Type of Account	Bank Balance
Wells Fargo	Checking Account	--	Checking	\$ 18,296
	Savings Account	02/08/09	CD	127,275
	Total Wells Fargo Bank			145,571
	FDIC Insurance			250,000
	Uninsured amount			0
	Less 50 percent			0
	Amount requiring pledged collateral			\$ 0

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2008

NOTE 5- RESTRICTED ASSETS

The following is a summary of restricted assets as of December 31, 2008:

Operations and maintenance account	\$ 37,042
Pump replacement	<u>37,575</u>
Total Restricted Assets	<u>\$ 74,617</u>

Certain resources set aside for their warranties, operations and equipment replacement, are classified as restricted assets on the balance sheet because their use is limited by applicable agreements. The "operations and maintenance" account is used to report resources set aside to fund operations and maintenance. The "pump replacement" account is used to report resources set aside to replace the pump in the future.

NOTE 6 — CAPITAL ASSETS

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

Business Type Activities:	December 31, 2007	Additions	Deletions	December 31, 2008
Capital Assets				
Project works & headquarters	\$ 12,790,519	\$ 0	\$ 0	\$ 12,790,519
Shop & maint. equip	374,752	0	4,500	370,252
Office equipment	69,330	0	0	69,330
Transportation equip	46,204	21,252	0	67,456
Total Capital Assets	<u>13,280,805</u>	<u>21,252</u>	<u>4,500</u>	<u>13,297,557</u>
Less accumulated depreciation				
Project works & headquarters	2,171,714	289,107		2,460,821
Shop & maint. equip	329,212	13,952	3,450	339,714
Office equipment	66,076	1,078		67,154
Transportation equip	24,036	9,554		33,590
Total Accum Depr	<u>2,591,037</u>	<u>313,691</u>	<u>3,450</u>	<u>2,901,279</u>
Capital Assets Net Depreciation	<u>\$ 10,689,768</u>			<u>\$ 10,396,278</u>

Depreciation expense for the year ended December 31, 2008 totaled \$ 313,691.

NOTE 7- LONG-TERM DEBT

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

	Balance 12/31/2007	Additions	Deletions	Balance 12/31/2008	Due Within One Year
US Dept of Interior	\$ 214,500	\$ -	\$ 9,000	\$ 205,500	\$ 9,000
Total	<u>\$ 214,500</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ 205,500</u>	<u>\$ 9,000</u>

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2008

NOTE 7- LONG-TERM DEBT - continued

Note Payable - U.S. Department of Interior

The amount due to the United States Department of Interior, Bureau of Reclamation, dated October 1959, in the amount of \$450,000 payable in 50 annual installments of \$9,000, non-interest bearing, and beginning in 1982. The balance due as of December 31, 2008 was \$205,500.

The terms of the contract with the Department of Interior provides for repayment of principal only. Accordingly, no interest expense has been recorded or capitalized in the financial statements. The terms of the loan agreement require that the District maintain cash reserves as security for the debt, and for repairs and replacements. The District is in compliance with the reserve requirements as of December 31, 2008.

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

<u>Fiscal Year Ended</u>	<u>US Dept. Interior</u>
December 31, 2009	\$ 9,000
December 31, 2010	9,000
December 31, 2011	9,000
December 31, 2012	9,000
December 31, 2013	9,000
December 31, 2014 – 2031	<u>160,500</u>
Debt service requirements	205,500
Less current portion	<u>(9,000)</u>
Long - term debt, net	<u>\$ 196,500</u>

NOTE 8— NET ASSETS

The restricted operation and maintenance asset is balanced by a reserve in net assets amounting to \$37,042. The restricted pump replacement asset is balanced by a reserve in net assets amounting to \$37,575. The District has designated \$84,565 to provide funds for repairs, replacement and maintenance of the assets of the District.

The following is a summary of reserved, designated and undesignated net assets as of December 31, 2008:

Restricted per agreement:	
Operation and maintenance	\$ 37,042
Pump replacement	<u>37,575</u>
Total Restricted	<u>\$ 74,617</u>
Unrestricted:	
Designated for repairs and replacement	\$ 84,565
Undesignated net assets	<u>21,513</u>
Total Unrestricted	<u>\$ 106,078</u>

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2008

NOTE 9- CONTINGENCIES AND COMMITMENTS

Risk Management

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

NOTE 10 – GAIN ON DISPOSITION OF ASSET

During the year ended December 31, 2008 the District sold a 1986 dump truck that had been purchased in 2004. The District sold the dump truck to a member of the Board after trying for several months to sell it to the public. The Board member paid \$1,000 giving the District a loss of \$50 on the disposition of the dump truck.

State of New Mexico
Hammond Conservancy District
Proprietary Fund
Schedule Revenues, Expenses, Budget and Actual (non-GAAP Budgetary Basis)
Year Ended December 31, 2008

	Original Approved Budget	Final Approved Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:				
Charges for services	\$ 211,800	\$ 211,800	\$ 204,193	\$ (7,607)
Other operating revenues	32,000	32,000	6,503	(25,497)
Total operating revenues	<u>243,800</u>	<u>243,800</u>	<u>210,696</u>	<u>(33,104)</u>
Operating expenses:				
Maintenance, operations and contractual services	104,400	104,400	106,654	(2,254)
Personnel services	155,100	155,100	152,748	2,352
Materials and supplies	26,500	26,500	25,547	953
Total operating expenses:	<u>286,000</u>	<u>286,000</u>	<u>284,949</u>	<u>1,051</u>
Non operating revenues (expenses)				
Long term debt payment	(9,000)	(9,000)	(9,000)	-
Interest income	4,000	4,000	3,760	(240)
Ad valorem taxes	47,200	47,200	47,906	706
Federal grants	-	-	-	-
Gain on disposition of asset	-	-	(50)	(50)
Total non operating revenues	<u>42,200</u>	<u>42,200</u>	<u>42,616</u>	<u>416</u>
Excess (deficiency) of revenues and other sources over expenses and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>(31,637)</u>	<u>\$ -</u>
<u>RECONCILIATION TO GAAP:</u>				
Depreciation			(313,692)	
Long term debt payment			9,000	
Change in net assets per financial statements (page 9)			<u>\$ (336,329)</u>	

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Hector H. Balderas,
New Mexico State Auditor
And
Members of the Board of Directors
Hammond Conservancy District
Bloomfield, New Mexico

We have audited the financial statements of the business-type activities and the budget comparison presented as supplemental information of Hammond Conservancy District (the District), as of and for the year ended December 31, 2008, and have issued our report thereon dated October 22, 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control over financial reporting.

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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal control.

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 District'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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

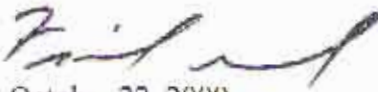
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 are described in the accompanying schedule of findings and responses as items 2006-1, 2008-1 & 2008-2.

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

This report is intended solely for the information and use of the Board of Directors, management, and the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, United States Department of Interior, Bureau of Reclamation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "F. J. ...", is written over the date.

October 22, 2009

**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
December 31, 2008**

CURRENT YEAR FINDINGS

2006-1 — Auditor Preparation of Financial Statements

Condition

The District does not have controls over the preparation of the financial statements which would prevent or detect a misstatement in the financial statements. The District's employees and management lack the training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements.

Criteria

A system of internal control over financial reporting includes controls over financial statement preparation (including footnote disclosures). Employees and management need to have training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements. (SAO Rule 2.2.2.8.J.(4) and SAS 112)

Cause

The auditor prepared the audited financial statements (including footnote disclosures) because the District's employees and management lack the proper training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements.

Effect

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

Recommendation

The District should adopt policies and procedures for controls over financial statement preparation (including footnotes). Also the District should invest in its employees and management so they may receive the proper training and qualifications to apply generally accepted accounting principles in recording the District's financial transactions and preparation of the financial statements.

Agency Response:

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

**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
(continued)
December 31, 2008**

2008-1 — Computer Control Security

Condition

The District does not have adequate controls over its computer system that would prevent unauthorized access to the District's computer or software. The computer is kept in the front office and has no passwords in place.

Criteria

Physical security and access to programs and data should be appropriately controlled to prevent unauthorized use, disclosure, modification, damage or loss of data.

Cause

There are currently no safeguards in place to prevent unauthorized access to the computer, programs or data.

Effect

By not having adequate controls over its computer or computer system could result in unauthorized entries or adjustments being made.

Recommendation

We recommend that management adopt controls over computer access such as better physical controls and the use of passwords.

Agency Response:

The District concurs with the finding and has since implemented better controls and password protection on computer access.

**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
(continued)
December 31, 2008**

2008-2 Late Audit Report

Condition: The Board did not submit its audit report for the year ended December 31, 2008 by its due date June 1, 2009. The report was submitted to the NM State Auditor's Office on October 22, 2009.

Criteria: The New Mexico State Auditor rules require that State Agency audit reports be submitted by May 31 of each year. (SAO Rule 2.2.2.9 A (1) (d))

Cause: The Board was unable to submit the December 31, 2008 audit report because the auditor did not receive the approved contract until after the contract due date. Signed contract was received on June 13, 2009.

Effect: The Board is not in compliance with the New Mexico State Auditor Rules and Regulations leaving the Board unable to use the report for management and budgetary purposes. The users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on state and federal funding.

Recommendation: The Board needs to ensure that all future audit reports are filed in a timely manner.

Response: Concur the Board will work on procedures to resolve finding.

**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
December 31, 2008**

Prior Year Audit Finding

Current Status

2006-1 — Auditor Preparation of Financial Statements

Repeated

STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
REQUIRED DISCLOSURE
December 31, 2008

Exit Conference

An exit conference was held on October 22, 2009.

Representing Hammond Conservancy District:

Board President
Business Manager

R. Russell Smith
Teresa Lane

Representing the firm of Fidel A. Bernal, P.C. was:

Fidel A. Bernal, CPA

Report Drafting

The financial statements, accompanying notes, and independent auditor's reports were drafted by Fidel A. Bernal, P.C.; however, maintaining the audited books and records is the responsibility of management. Accordingly, management is responsible for ensuring that these books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.

October 22, 2009

State of New Mexico
Office of the State Auditor
2113 Warner Circle
Santa Fe, NM 87505-5499

Re: Hammond Conservancy District
Year ended December 31, 2008

For the year ended December 31, 2008 there are no passed adjustments for Hammond Conservancy District.
