

**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2009**

INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
List of Principal Officials
December 31, 2009**

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

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

State Auditor and the Board Members
Hammond Conservancy District
Bloomfield, New Mexico

We have audited the accompanying financial statements of the business-type activities of Hammond Conservancy District (the District) as of and for the year ended December 31, 2009, as listed in the accompanying table of contents. We also have audited the statement of revenues, expenses – budget and actual (budgetary basis) of the District for the year ended December 31, 2009, as listed in the table of contents. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2009, 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 addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the statement of revenues, expenses – budget and actual (budgetary basis) of the District for the year ended December 31, 2009, 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 July 24, 2015 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 viii through xi, 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.

David Berry, CPA, PC

**Farmington, New Mexico
July 24, 2015**

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Management's Discussion and Analysis Year Ended December 31, 2009

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. 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 Position, 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, 2009.

Financial Highlights

- The District's assets exceeded its liabilities at the close of the fiscal year December 31, 2009 by \$10,070,033 (net position). This was a decrease of \$301,442 from December 31, 2008 net position of \$10,371,475. Of the December 31, 2009 net position, \$101,978 is unrestricted.
- The District's financial position declined in 2009 as compared to prior year. Net position decreased during the year by \$301,442. Depreciation expense of \$309,515 is included in this decrease of net position.
- The District's cash and cash equivalents reflect \$134,086 at December 31, 2009. 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 \$77,791.

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report the District's net position and how they have changed. Net position 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 position as of December 31, 2009 and 2008.

Net Assets, as of December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets	\$ 104,218	\$ 106,080
Capital Assets, Net	10,086,764	10,396,278
Non-Current Assets	<u>77,791</u>	<u>74,617</u>
Total Assets	10,268,773	10,576,975
Liabilities		
Current Liabilities	\$ 11,240	\$ 9,000
Non-Current Liabilities	<u>187,500</u>	<u>196,500</u>
Total Liabilities	198,740	205,500
Net Position:		
Invested in Capital Assets	\$ 9,890,264	\$ 10,190,779
Restricted Expendable	77,791	74,617
Unrestricted	<u>101,978</u>	<u>106,079</u>
Total Net Position	\$ 10,070,033	\$ 10,371,475

Analysis of Net Position

The District's assets exceeded liabilities by \$10,997,418 at the close of the fiscal year. Net position consist of 98% Capital Assets (e.g. project works, buildings, and equipment) or \$9,890,264. 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 position also consist of restricted assets in the amount of \$77,791. Unrestricted net position are available for the District's ongoing operations and are \$101,978.

The following table summarizes the District's revenue, expenses, and changes in net position for the year ended December 31, 2009 and 2008:

Revenue, Expenses and Changes in Net Position

	<u>2009</u>	<u>2008</u>
Operating Revenues	\$ 234,915	\$ 210,696
Operating Expenses	<u>583,042</u>	<u>598,641</u>
Operating Loss	(348,127)	(387,945)
Nonoperating Revenues (Expenses)	<u>46,685</u>	<u>51,616</u>
Decrease in Net Position	\$ (301,442)	\$ (336,329)

During the fiscal year, the District's net position decreased by \$301,442. This decrease represents 128% of revenues. Operating revenues increased by \$24,219 (11% increase).

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Charges for services	\$ 210,442	\$ 204,193
Other operating revenues	<u>24,473</u>	<u>6,503</u>
Total Operating Revenues	\$ 234,915	\$ 210,696

Operating Expenses

The following table summarizes the District's operating expenses for the fiscal year ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Personnel services	\$ 165,596	\$ 152,748
Maintenance, operations and contractual services	86,375	106,654
Material and supplies	21,556	25,547
Depreciation	<u>309,515</u>	<u>313,692</u>
Total Operating Expenses	\$ 583,042	\$ 598,641

Non-Operating Revenues and Expenses

The following table summarizes the District's non-operating revenues (expenses) for the fiscal year ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 2,721	\$ 3,760
Ad valorem taxes	43,964	47,906
Operating grants	-	-
Gain (loss) on disposition of capital assets	-	(50)
Total Nonoperating Revenues	\$ 46,685	\$ 51,616

Capital Assets and Long-Term Debt

The District added \$0 and \$21,252 in capital assets during the fiscal year ended December 31, 2009 and 2008. Depreciation expenses for the year ended December 31, 2009 and 2008, amounted to \$309,515 and \$313,691, respectively.

The District made principal payments in the amount of \$9,000 and \$9,000 during the years ended December 31, 2009 and 2008, 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 \$19,935 due to charges for services less than budgeted by \$19,408 due to decrease in fees charged.

Total expenses (operating) were under budget by \$5,538. Personnel services were under budget by \$6,904; maintenance, operations and contractual services were under budget by \$12,925; and materials and supplies were under budget by \$5,644.

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BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT
BASIC FINANCIAL STATEMENTS**

STATEMENT OF NET POSITION

December 31, 2009

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 56,295
Accounts receivable, net of allowance of \$975	21,504
Due from other governments	13,819
Prepaid expenses	12,600
Total Current Assets	104,218
NONCURRENT ASSETS:	
Restricted assets - cash	77,791
Capital assets, net of accumulated depreciation	10,086,764
Total Noncurrent Assets	10,164,555
Total Assets	\$ 10,268,773
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ -
Accrued payroll taxes	2,240
Current portion of noncurrent liabilities	9,000
Total Current Liabilities	11,240
NONCURRENT LIABILITIES:	
Note payable - US Department of Interior (noncurrent)	187,500
Total Liabilities	198,740
NET POSITION:	
Net investment in capital assets	9,890,264
Restricted expendable	77,791
Unrestricted	101,978
Total Net Position	10,070,033
Total Liabilities and Net Position	\$ 10,268,773

See accompanying notes to the basic financial statements.

**STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT
BASIC FINANCIAL STATEMENTS**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION**

Year Ended December 31, 2009

OPERATING REVENUES:	
Charges for services	\$ 210,442
Other operating revenues	24,473
Total Operating Revenues	<u>234,915</u>
OPERATING EXPENSES:	
Personnel services	165,596
Maintenance, operations and contractual services	86,375
Material and supplies	21,556
Depreciation	309,515
Total Operating Expenses	<u>583,042</u>
Operating Income (Loss)	<u>(348,127)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	2,721
Ad valorem taxes	43,964
Federal grants	-
Total Nonoperating Revenues (Expenses)	<u>46,685</u>
Increase (decrease) in net position	(301,442)
NET POSITION, beginning of year	<u>10,371,475</u>
NET POSITION, end of year	<u>\$ 10,070,033</u>

See accompanying notes to the basic financial statements.

**STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT
BASIC FINANCIAL STATEMENTS**

STATEMENT OF CASH FLOWS

Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services and other operating revenues	\$ 230,774
Payments to employees for salaries and benefits	(165,596)
Payments to suppliers	<u>(106,215)</u>
Net Cash Provided (Used) By Operating Activities	<u>(41,037)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Ad valorem taxes	46,520
Operating grants	<u>-</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>46,520</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Acquisition of fixed assets	-
Repayment of debt	<u>(9,000)</u>
Net Cash Provided (Used) By Capital Financing Activities	<u>(9,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>2,721</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(796)
CASH AND CASH EQUIVALENTS, beginning	<u>134,882</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 134,086</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (348,127)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	309,515
Changes in:	
Accounts receivable	(4,141)
Prepaid expenses	(524)
Accrued taxes payable	<u>2,240</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ (41,037)</u></u>

See accompanying notes to the basic financial statements.

**HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

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 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.

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.

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 \$8 per acre for approximately 3,933 acres of authorized irrigable land. Water usage is charged at the rate of \$16.50 per acre. Each Class A land owner is charged \$50 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.

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. 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, 2009, 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 position

Net position is classified as follows:

Net Investment in capital assets 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, 2009.

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.

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 nonappropriated budget adopted on a cash (non-GAAP) basis. Budgetary control is prepared at the level of account classification, and serves as a management control device. Once adopted, the Board is authorized to amend the budget at the account classification and fund level.

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, 2009, the District was in compliance with state statute.

The carrying amount of the District's deposits was \$134,086 and the bank balance was \$135,308 as of December 31, 2009. Of the bank balance, \$135,308 was covered by federal depository insurance. The remaining balance of \$0 was covered by collateral held in the pledging financial institutions' trust department or agent but not in the District's name, and \$0 was uncollateralized and uninsured. The \$0 is considered to be a custodial credit risk because the collateral is not held in the District's name.

NOTE 5 - RESTRICTED ASSETS

The following is a summary of restricted assets as of December 31, 2009:

Operations and maintenance account.....	\$ 37,830
Pump replacement.....	<u>39,961</u>
Total Restricted Assets.....	<u>\$ 77,791</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:

	<u>December 31,</u> <u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2009</u>
Project works & headquarters	\$12,790,519	\$ -	\$ -	\$12,790,519
Shop & maint. equip.....	370,252	-	-	370,252
Office equipment.....	69,330	-	-	69,330
Transportation equip.....	<u>67,457</u>	<u>-</u>	<u>-</u>	<u>67,457</u>
Total	<u>13,297,558</u>	<u>-</u>	<u>-</u>	<u>13,297,558</u>
Less accumulated depreciation				
Project works & headquarters	2,460,821	287,123	-	2,747,944
Shop & maint. equip.....	339,714	13,178	-	352,892
Office equipment.....	67,154	1,306	-	68,460
Transportation equip.....	<u>33,590</u>	<u>7,908</u>	<u>-</u>	<u>41,498</u>
Total accumulated depreciation.....	<u>2,901,279</u>	<u>309,515</u>	<u>-</u>	<u>3,210,794</u>
Net	<u>\$10,396,279</u>	<u>\$(309,515)</u>	<u>\$ -</u>	<u>\$10,086,764</u>

NOTE 7 - LONG-TERM DEBT

During the year ended December 31, 2009, the following changes occurred in long-term debt:

	<u>Balance</u> <u>12/31/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2009</u>	<u>Due Within</u> <u>One Year</u>
N/P - Finance Company	\$ -	\$ -	\$ -	\$ -	\$ -
N/P - US Dept of Interior	<u>205,500</u>	<u>-</u>	<u>9,000</u>	<u>196,500</u>	<u>9,000</u>
Total	<u>\$ 205,500</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ 196,500</u>	<u>\$ 9,000</u>

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, noninterest bearing, and beginning in 1982. The balance due as of December 31, 2009 was \$196,500.

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, 2009.

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

<u>Fiscal Year Ended</u>	<u>Finance Company</u>	<u>US Dept. Interior</u>	<u>Total</u>
December 31, 2010.....	-	9,000	9,000
December 31, 2011.....	-	9,000	9,000
December 31, 2012.....	-	9,000	9,000
December 31, 2013.....	-	9,000	9,000
December 31, 2014.....	-	9,000	9,000
December 31, 2015-2019.....	-	45,000	45,000
December 31, 2020-2024.....	-	45,000	45,000
December 31, 2025-2029.....	-	45,000	45,000
December 31, 2030-2031.....	-	16,500	16,500
Debt service requirements.....	-	196,500	196,500
Less current portion.....	-	(9,000)	(9,000)
Long-term debt, net.....	<u>\$ -</u>	<u>\$187,500</u>	<u>\$187,500</u>

NOTE 8 – NET POSITION

The restricted operation and maintenance asset is balanced by a restricted expendable net position amounting to \$37,830.

The restricted pump replacement asset is balanced by a restricted expendable net position amounting to \$39,961.

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, 2009:

Restricted per agreement:	
Operation and maintenance	\$ 37,830
Pump replacement	39,961
Total Restricted Expendable	<u>\$ 77,791</u>
Unrestricted:	
Designated for repairs and replacement ...	\$ 84,565
Undesignated net assets	17,413
Total Unrestricted	<u>\$ 101,978</u>

NOTE 9 - CONTINGENCIES AND COMMITMENTS

Grants

The District 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. In prior years, the District had their grants audited under the audit requirements of the Office of Management and Budgets Circular A-133. The Federal agencies reserve the right to review the scope of the audit and conduct a follow-up review if deemed necessary. Any disallowed claims resulting from such audits could become a liability of the General Fund or any other applicable District fund. The District, however, believes that liabilities resulting from disallowed claims, if any, will not have a material effect on the District's financial position at year end.

Commitments

In September 1996 the District entered into a cooperative agreement with the United States Department of Interior, Bureau of Reclamation. The agreement is authorized by Public Law 104-20 to expand its salinity control efforts to new areas within the Colorado River Basin. The Bureau of Reclamation will provide funding and technical assistance for work associated with lining canals and laterals of the District conveyance system. The duration of this agreement extends through September 30, 2002. The total cost of lining the East Highline, West Highline, Gravity Extension Lateral, main canal, and project mitigation is estimated to be \$13,486,000. The Bureau of Reclamation has reserved \$11,905,000 from its 1996 funds to cover payments, which may be due under this agreement. Additional funding is subject to congressional appropriations. The District is responsible for conducting all required pre-construction and construction activities, and submitting periodic reports to the Bureau of Reclamation as required by federal and state laws. The District has subcontracted with a construction manager to assist with accomplishing these responsibilities.

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 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through July 24, 2015, which is the date the financial statements were available to be issued.

SUPPORTING SCHEDULES

STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (BUDGETARY BASIS)

Year Ended December 31, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
OPERATING REVENUES:				
Charges for services	\$ 229,850	\$ 229,850	\$ 210,442	\$ (19,408)
Other	25,000	25,000	24,473	(527)
Total Operating Revenues	254,850	254,850	234,915	(19,935)
OPERATING EXPENSES:				
Personnel services:				
Salaries and wages	156,500	156,500	151,318	5,182
Payroll taxes	13,000	13,000	11,278	1,722
Other personnel expenses	3,000	3,000	3,000	-
Total Personnel Services	172,500	172,500	165,596	6,904
Maintenance, operations and contractual services:				
Advertising	700	700	92	608
Contract labor	8,000	8,000	-	8,000
Equipment repairs	6,000	6,000	4,798	1,202
Equipment rental	3,000	3,000	6,304	(3,304)
Insurance	19,000	19,000	17,468	1,532
Other	2,600	2,600	2,138	462
Professional fees	24,000	24,000	23,098	902
Repairs and maintenance	19,000	19,000	21,536	(2,536)
Telephone	5,000	5,000	4,569	431
Utilities	12,000	12,000	6,372	5,628
Total Maintenance, Operations and Contractual Services	99,300	99,300	86,375	12,925

STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT

(Continued)

STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (BUDGETARY BASIS)

Year Ended December 31, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Material and supplies:				
Chemicals	5,000	5,000	-	5,000
Fuel and oil	14,000	14,000	11,694	2,306
Shop supplies and tools	4,000	4,000	4,191	(191)
Postage	1,200	1,200	1,085	115
Office supplies	3,000	3,000	4,586	(1,586)
Total Materials and Supplies	27,200	27,200	21,556	5,644
Total Operating Expenses	299,000	299,000	273,527	25,473
Operating Income (Loss)	(44,150)	(44,150)	(38,612)	5,538
NONOPERATING REVENUES (EXPENSES):				
Long-term debt payment	(9,000)	(9,000)	(9,000)	-
Interest income	4,000	4,000	2,721	(1,279)
Ad valorem taxes	49,150	49,150	43,964	(5,186)
Federal grants	-	-	-	-
Total Nonoperating Revenues (Expenses)	44,150	44,150	37,685	(6,465)
Change in Net Position (Budgetary Basis)	<u>\$ -</u>	<u>\$ -</u>	(927)	<u>\$ (927)</u>
RECONCILIATION TO CHANGE IN NET POSITION ON BASIC FINANCIAL STATEMENTS:				
Depreciation			(309,515)	
Long-term debt payment			9,000	
Change in net position per basic financial statements			<u>\$ (301,442)</u>	

See accompanying notes to the basic financial statements.

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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
Hammond Conservancy District
Bloomfield, New Mexico

We have audited the financial statements of the business-type activities of Hammond Conservancy District (the District) as of and for the ended December 31, 2009, and have issued our report thereon dated July 24, 2015. We also have audited the statement of revenues, expenses – budget and actual (budgetary basis) of the District for the year ended December 31, 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 District's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered 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 FS 2006-1, FS 2008-2 and FS 2009-1.

This report is intended solely for the information and use of management, the Office of the State Auditor, the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

David Berry, CPA, PC

**Farmington, New Mexico
July 24, 2015**

**STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2009**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the State of New Mexico, Hammond Conservancy District.
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. Three instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. Single audit not required.

B. Findings - Financial Statements Audit

PRIOR YEAR FINDINGS

FS 2006-1 Auditor Preparation of Financial Statements – Not resolved and repeated.

FS 2008-1 Computer Control Security – Resolved and not repeated.

FS 2008-2 Late Audit Report – Not resolved and repeated.

CURRENT YEAR FINDINGS

FS 2006-1 – Auditor Preparation of Financial Statements (Other)

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

Management Response

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

FS 2008-2 Late Audit Report (Other)

Condition

The District did not submit its audit report for the year ended December 31, 2008 and 2009 by its due date of the following year.

Criteria

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

Cause

The District did not contract to have the audits done on a timely basis due to cash flow concerns.

Effect

The District is not in compliance with the New Mexico State Auditor Rules and Regulations.

Recommendation

The District should adopt policies and procedures to comply with the New Mexico Auditor Rules and Regulations.

Management Response

The District will consider adopting policies and procedures for controls over financial statement preparation and requirements to comply with the New Mexico Auditor Rules and Regulations.

FS 2009-1 Capital Asset Certification (Other)

Condition

The District did not conduct an annual capital asset inventory to be certified by its governing authority (the Board).

Criteria

The New Mexico Administrative Code (NMAC) Section 2.20.1.16A & E states that “at the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets and the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing body of the agency”. Section 12-6-10 NMSA 1978 further specifies that the inventory should be done for “movable chattels and equipment costing more than \$5,000 and under the control of the governing authority”.

Cause

The District was not aware of the statute requiring capital asset inventory and certification by the Board.

Effect

The District is not in compliance with Section 12.6.10 NMSA 1978.

Recommendation

The District should adopt policies and procedures to comply with Section 12.6.10 NMSA 1978.

Management Response

The District will consider adopting policies and procedures to comply with Section 12.6.10 NMSA 1978.

C. Findings – Single audit not required

**STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT
EXIT CONFERENCE
Year Ended December 31, 2009**

An exit conference was held on July 28, 2015, and the following were in attendance:

Hammond Conservancy District:

Board Director..... Ron Baird
Business Manager Teresa Lane

David Berry, CPA, PC:

CPA David Berry, CPA