

**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2015**

INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
HAMMOND CONSERVANCY DISTRICT
List of Principal Officials
December 31, 2015**

<u>Title</u>	<u>Name</u>
President	Kent Roberts
Secretary/Treasurer.....	Robert Spearman
Director.....	Billy Mangum
Director.....	Gary McDaniel
Director.....	Stacey Gerke
Business Manager.....	Teresa Lane

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities, which are comprised of the statement of net position as of December 31, 2015 and statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Hammond Conservancy District basic financial statements as listed in the 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, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hammond Conservancy District as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance 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, 2015, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 7-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016 on our consideration of the Hammond Conservancy District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

David Berry, CPA, PC

**Farmington, New Mexico
May 26, 2016**

Management's Discussion and Analysis Year Ended December 31, 2015

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, 2015.

Financial Highlights

- The District's assets exceeded its liabilities at the close of the fiscal year December 31, 2015 by \$9,048,134 (net position). This was an increase of \$199,963 from December 31, 2014 net position of \$8,848,171. Of the December 31, 2015 net position, \$583,211 is unrestricted.
- The District's financial position increased in 2015 as compared to prior year due to settlement income of \$421,876. Without the settlement income the net position would have decreased during the year by \$221,913, which is consistent with prior years.
- The District's cash and cash equivalents reflect \$569,599 at December 31, 2015. 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 \$87,313.

The Statement of Net Position 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, 2015 and 2014.

Net Position, as of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets	\$ 583,211	\$ 194,935
Capital Assets, Net	8,520,110	8,719,010
Non-Current Assets	<u>87,313</u>	<u>85,726</u>
Total Assets	9,190,634	8,999,671
Liabilities		
Current Liabilities	\$ 9,000	\$ 9,000
Non-Current Liabilities	<u>133,500</u>	<u>142,500</u>
Total Liabilities	142,500	151,500
Net Position:		
Net investment in		
Capital Assets	\$ 8,377,610	\$ 8,567,510
Restricted Expendable	87,313	85,726
Unrestricted	<u>583,211</u>	<u>194,935</u>
Total Net Position	\$ 9,048,134	\$ 8,848,171

Analysis of Net Position

The District's assets exceeded liabilities by \$9,048,134 at the close of the fiscal year. Net position consists of 93% Capital Assets (e.g. project works, buildings, and equipment) or \$8,377,610. 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 consists of restricted assets in the amount of \$87,313. Unrestricted net position is available for the District's ongoing operations and is \$583,211.

The following table summarizes the District's revenue, expenses, and changes in net position for the year ended December 31, 2015 and 2014:

Revenue, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Revenues	\$ 305,194	\$ 317,697
Operating Expenses	<u>583,532</u>	<u>633,328</u>
Operating Loss	(278,338)	(315,631)
Nonoperating Revenues (Expenses)	<u>478,301</u>	<u>64,117</u>
Change in Net Position	\$ 199,963	\$ (251,514)

During the fiscal year, the District's net position increased by \$199,963. Operating revenues decreased by \$12,503 (4% decrease) due to decrease in charges and levies. Nonoperating revenues increase by \$421,876 settlement income that was awarded from New Mexico Gas Company by the New Mexico Public Regulation Commission to convert utilities from propane to electric. The District has entered into an agreement with the City of Farmington to provide electric utility services in future years for approximately \$125,000

Operating Revenues

The following table summarizes the District's operating revenues for the fiscal year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Charges for services	\$ 298,560	\$ 302,812
Other operating revenues	<u>6,634</u>	<u>14,885</u>
Total Operating Revenues	\$ 305,194	\$ 317,697

Operating revenues decreased by \$12,503 (4% decrease) due to decrease in charges and levies.

Operating Expenses

The following table summarizes the District's operating expenses for the fiscal year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Personnel services	\$ 187,288	\$ 185,008
Maintenance, operations and contractual services	90,160	130,571
Material and supplies	34,563	47,716
Depreciation	<u>271,521</u>	<u>270,033</u>
Total Operating Expenses	\$ 583,532	\$ 633,328

Non-Operating Revenues and Expenses

The following table summarizes the District's non-operating revenues (expenses) for the fiscal year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest income	\$ 445	\$ 164
Ad valorem taxes	55,980	63,953
Settlement income	421,876	-
Gain (loss) on disposition of capital assets	<u>-</u>	<u>-</u>
Total Nonoperating Revenues	\$ 478,301	\$ 67,312

Settlement income increase by \$421,876 that was awarded from New Mexico Gas Company by the New Mexico Public Regulation Commission to convert utilities from propane to electric

Capital Assets and Long-Term Debt

The District added \$72,621 and \$5,607 in capital assets during the fiscal year ended December 31, 2015 and 2014. Depreciation expenses for the year ended December 31, 2015 and 2014, amounted to \$271,521 and \$270,033, respectively.

The District made principal payments in the amount of \$9,000 and \$9,000 during the years ended December 31, 2015 and 2014, respectively.

Factors Impacting Future Periods

The District has entered into an agreement with the City of Farmington to provide electric utility services in future years for approximately \$125,000

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 \$6,306 due to charges for services and other charges.

Total operating expenses were under/(over) budget by \$18,989. Personnel services were under/(over) budget by \$10,212; maintenance, operations and contractual services were under/(over) budget by \$11,540; and materials and supplies were under/(over) budget by (\$2,763).

Total Nonoperating revenues were over/(under) budget by \$449,801 due to settlement income of \$421,876.

BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

December 31, 2015

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 482,286
Accounts receivable, net of allowance of \$975	55,431
Due from other governments	28,891
Prepaid expenses	16,603
Total Current Assets	583,211
NONCURRENT ASSETS:	
Restricted assets - cash	87,313
Capital assets, net of accumulated depreciation	8,520,110
Total Noncurrent Assets	8,607,423
Total Assets	\$ 9,190,634
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ -
Accrued payroll taxes	-
Current portion of noncurrent liabilities	9,000
Total Current Liabilities	9,000
NONCURRENT LIABILITIES:	
Note payable - US Department of Interior (noncurrent)	133,500
Total Liabilities	142,500
NET POSITION:	
Net investment in capital assets	8,377,610
Restricted expendable	87,313
Unrestricted	583,211
Total Net Position	9,048,134
Total Liabilities and Net Position	\$ 9,190,634

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 NET POSITION**

Year Ended December 31, 2015

OPERATING REVENUES:

Charges for services	\$	298,560
Other operating revenues		6,634
Total Operating Revenues		<u>305,194</u>

OPERATING EXPENSES:

Personnel services		187,288
Maintenance, operations and contractual services		90,160
Material and supplies		34,563
Depreciation		271,521
Total Operating Expenses		<u>583,532</u>
Operating Income (Loss)		<u>(278,338)</u>

NONOPERATING REVENUES (EXPENSES):

Interest income		445
Ad valorem taxes		55,980
Settlement income		421,876
Total Nonoperating Revenues (Expenses)		<u>478,301</u>

Increase (decrease) in net position 199,963

NET POSITION, beginning of year 8,848,171

NET POSITION, end of year \$ 9,048,134

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services and other operating revenues	\$ 280,533
Payments to employees for salaries and benefits	(187,288)
Payments to suppliers	<u>(124,684)</u>
Net Cash Provided (Used) By Operating Activities	<u>(31,439)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Ad valorem taxes	55,980
Settlement income	<u>421,876</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>477,856</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Acquisition of fixed assets	(72,621)
Repayment of debt	<u>(9,000)</u>
Net Cash Provided (Used) By Capital Financing Activities	<u>(81,621)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>446</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	365,242
CASH AND CASH EQUIVALENTS, beginning	<u>204,357</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 569,599</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (278,338)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	271,521
Changes in:	
Accounts receivable	(13,877)
Due from other governments	(10,784)
Prepaid expenses	39
Accrued taxes payable	<u>-</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ (31,439)</u></u>

See accompanying notes to the basic financial statements.

HAMMOND CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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 \$15 per acre for approximately 3,933 acres of authorized irrigable land; water usage is charged at the rate of \$22.50 per acre; a special levy of \$10 per acre is charged each month; each Class A land owner is charged \$90 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 year-end, 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 position 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 position is resources that the District is legally or contractually obligated to spend in accordance with imposed restrictions by third parties. *Restricted non-expendable* net position consists 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 at year-end.

Unrestricted net position consists 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.

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 December 1, the Business Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayers comments. Prior to March 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. At year end, the District was not in compliance with state statute.

The carrying amount of the District's deposits was \$569,599 and the bank balance was \$593,576 as of December 31, 2015. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance of \$133,003 was covered by collateral held in the pledging financial institutions' trust department or agent but not in the District's name, and \$210,573 was uncollateralized and uninsured. The \$133,003 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, 2015:

Operations and maintenance account.....	\$ 40,194
Pump replacement.....	<u>47,119</u>
Total Restricted Assets.....	<u>\$ 87,313</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>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2015</u>
Project works & headquarters	\$12,796,127	\$ -	\$ -	\$12,796,127
Shop & maint. equip.....	370,251	72,621	-	442,872
Office equipment.....	71,128	-	-	71,128
Transportation equip.....	<u>97,256</u>	<u>-</u>	<u>-</u>	<u>97,256</u>
Total	<u>13,334,762</u>	<u>72,621</u>	<u>-</u>	<u>13,407,383</u>
Less accumulated depreciation				
Project works & headquarters	4,101,345	262,812	-	4,364,157
Shop & maint. equip.....	370,295	2,389	-	372,684
Office equipment.....	70,199	360	-	70,559
Transportation equip.....	<u>73,913</u>	<u>5,960</u>	<u>-</u>	<u>79,873</u>
Total accumulated depreciation.....	<u>4,615,752</u>	<u>271,521</u>	<u>-</u>	<u>4,887,273</u>
Net	<u>\$ 8,719,010</u>	<u>\$(198,900)</u>	<u>\$ -</u>	<u>\$ 8,520,110</u>

NOTE 7 - LONG-TERM DEBT

During the year ended December 31, 2015, the following changes occurred in long-term debt:

	<u>Balance</u> <u>12/31/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2015</u>	<u>Due Within</u> <u>One Year</u>
N/P - Finance Company	\$ -	\$ -	\$ -	\$ -	\$ -
N/P - US Dept of Interior	<u>151,500</u>	<u>-</u>	<u>9,000</u>	<u>142,500</u>	<u>9,000</u>
Total	<u>\$ 151,500</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ 142,500</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, 2015 was \$142,500.

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, 2015.

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, 2016.....	-	9,000	9,000
December 31, 2017.....	-	9,000	9,000
December 31, 2018.....	-	9,000	9,000
December 31, 2019.....	-	9,000	9,000
December 31, 2020.....	-	9,000	9,000
December 31, 2021-2025.....	-	45,000	45,000
December 31, 2026-2030.....	-	45,000	45,000
December 31, 2031.....	-	7,500	7,500
Debt service requirements.....	-	142,500	142,500
Less current portion.....	-	(9,000)	(9,000)
Long-term debt, net.....	<u>\$ -</u>	<u>\$133,500</u>	<u>\$133,500</u>

NOTE 8 – NET POSITION

The restricted operation and maintenance asset is balanced by a restricted expendable net position amounting to \$40,194.

The restricted pump replacement asset is balanced by a restricted expendable net position amounting to \$47,119.

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 position as of December 31, 2015:

Restricted per agreement:	
Operation and maintenance	\$ 40,194
Pump replacement	47,119
Total Restricted Expendable	<u>\$ 87,313</u>
Unrestricted:	
Designated for repairs and replacement ...	\$ 84,565
Undesignated net position	498,646
Total Unrestricted	<u>\$ 583,211</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 – SETTLEMENT INCOME

During 2015 the District was awarded \$421,876 from New Mexico Gas Company by the New Mexico Public Regulation Commission to convert utilities from propane to electric. The District has entered into an agreement with the City of Farmington to provide electric utility services in future years for approximately \$125,000.

NOTE 11 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 26, 2016, which is the date the financial statements were available to be issued.

SUPPORTING SCHEDULES

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

Year Ended December 31, 2015

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
OPERATING REVENUES:				
Charges for services	\$ 305,500	\$ 305,500	\$ 298,560	\$ (6,940)
Other	6,000	6,000	6,634	634
Total Operating Revenues	311,500	311,500	305,194	(6,306)
OPERATING EXPENSES:				
Personnel services:				
Salaries and wages	180,000	180,000	171,007	8,993
Payroll taxes	14,500	14,500	13,281	1,219
Other personnel expenses	3,000	3,000	3,000	-
Total Personnel Services	197,500	197,500	187,288	10,212
Maintenance, operations and contractual services:				
Advertising	-	-	-	-
Contract labor	500	500	2,871	(2,371)
Equipment repairs	18,000	18,000	10,622	7,378
Equipment rental	4,000	4,000	3,508	492
Insurance	23,600	23,600	22,181	1,419
Other	2,600	2,600	1,245	1,355
Postage	1,000	1,000	410	590
Professional fees	28,000	28,000	26,743	1,257
Repairs and maintenance	9,000	9,000	8,890	110
Telephone	5,000	5,000	4,938	62
Utilities	10,000	10,000	8,752	1,248
Total Maintenance, Operations and Contractual Services	101,700	101,700	90,160	11,540

STATE OF NEW MEXICO, HAMMOND CONSERVANCY DISTRICT (Continued)

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

Year Ended December 31, 2015

	<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	6,000	6,000	10,948	(4,948)
Fuel and oil	18,000	18,000	13,953	4,047
Shop supplies and tools	4,000	4,000	7,210	(3,210)
Office supplies	3,800	3,800	2,452	1,348
Total Materials and Supplies	<u>31,800</u>	<u>31,800</u>	<u>34,563</u>	<u>(2,763)</u>
Total Operating Expenses	<u>331,000</u>	<u>331,000</u>	<u>312,011</u>	<u>18,989</u>
Operating Income (Loss)	<u>(19,500)</u>	<u>(19,500)</u>	<u>(6,817)</u>	<u>12,683</u>
NONOPERATING REVENUES (EXPENSES):				
Long-term debt payment	(9,000)	(9,000)	(9,000)	-
Replacement reserves / capital expenditures	(30,000)	(30,000)	-	30,000
Interest income	500	500	445	(55)
Ad valorem taxes	58,000	58,000	55,980	(2,020)
Settlement income	-	-	421,876	421,876
Total Nonoperating Revenues (Expenses)	<u>19,500</u>	<u>19,500</u>	<u>469,301</u>	<u>449,801</u>
Change in Net Position (Budgetary Basis)	<u>\$ -</u>	<u>\$ -</u>	<u>462,484</u>	<u>\$ 462,484</u>

**RECONCILIATION TO CHANGE IN NET
POSITION ON BASIC FINANCIAL STATEMENTS:**

Depreciation	(271,521)
Long-term debt payment	<u>9,000</u>
Change in net position per basic financial statements	<u><u>\$ 199,963</u></u>

See accompanying notes to the basic financial statements.

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S 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

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

We have audited, 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, the financial statements of the business-type activities of the Hammond Conservancy District as of and for the ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the related budgetary comparisons of the District, presented as supplementary information, and have issued our report thereon dated May 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2009-001, 2010-001 and 2015-002.

Responses to Findings

The District's responses to the finding identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David Berry, CPA, PC

**Farmington, New Mexico
May 26, 2016**

**HAMMOND CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2015**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the District.
2. No material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. A single audit was not required.

B. Findings - Financial Statements Audit

Prior Year Findings

2009-001 Capital Asset Certification (Compliance and Other Matters)

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 adopt policies and procedures to comply with Section 12.6.10 NMSA 1978. The Business Manager will implement the policies and procedures before the year end.

2010-001 Submission of Reports to the Department of Finance and Administration (DFA-LGD) (Compliance and Other Matters)

Condition

The District did not document the timely submission of financial and budgetary reports with DFA-LGD.

Criteria

Section 6-6-2 NMSA 1978 requires local public bodies to submit quarterly financial reports and an annual budget to DFA-LCD.

Cause

The District was unaware it should document the submission of reports and budgets.

Effect

The District is not in compliance with Section 6-6-2 NMSA 1978.

Recommendation

The District should adopt policies and procedures to comply with and document compliance with Section 6-6-2 NMSA 1978.

Management Response

The District will adopt policies and procedures to comply with and document compliance with Section 6-6-2 NMSA 1978. The Business Manager will implement the policies and procedures before the year end.

Current Year Findings

2015-001 Pledged Collateral (Compliance and Other Matters)

Condition

The District's bank deposits were under collateralized as of December 31, 2015 by \$38,785.

Criteria

Cash equivalents and deposits in excess of FDIC insurance must be covered by 50% of pledged collateral in accordance with NMSA 1978 Section 6-10-07.

Cause

The District received a large settlement (\$421,876) and the bank did not increase pledged collateral amounts to cover the 50% requirement.

Effect

The District was not in compliance with New Mexico State Statutes.

Recommendation

The District should review the list of collateral pledged on a timely basis to comply with District policy and with applicable New Mexico state statutes.

Management Response

The District will contact the bank and increase the amount of pledged collateral to comply with District policy and with applicable New Mexico state statutes. The Business Manager will implement the policies and procedures before the year end.

**HAMMOND CONSERVANCY DISTRICT
EXIT CONFERENCE
Year Ended December 31, 2015**

A. Financial Statement Presentation

The District's financial statements were prepared by David Berry, CPA, PC. Management has reviewed and approved these financial statements. Management is responsible for ensuring that the books and records from which the financial statements were prepared adequately support the financial assertions contained therein, in conformity with generally accepted accounting principles and that the records are current and in balance.

B. Exit Conference

An exit conference was held on May 26, 2016. In attendance were:

Upper La Plata Domestic Water Consumer and
Mutual Sewage Works Cooperative:

Board Member	Billy Mangum
Business Manager	Teresa Lane

David Berry, CPA, PC:

Auditor	David Berry, CPA
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OTHER INFORMATION

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HAMMOND CONSERVANCY DISTRICT, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
December 31, 2015

	Wells	
	<u>Fargo Bank</u>	<u>Total</u>
Demand deposits	\$ 593,576	\$ 593,576
Certificates of deposit	-	-
Deposits, at December 31, 2015	<u>593,576</u>	<u>593,576</u>
FDIC Insurance	250,000	250,000
Uninsured amount	<u>343,576</u>	<u>343,576</u>
Less 50 percent	171,788	171,788
Amount requiring pledged collateral	<u>171,788</u>	<u>171,788</u>
Pledged collateral at December 31, 2015	<u>133,003</u>	<u>133,003</u>
Excess (deficiency) of pledged collateral	<u><u>\$ (38,785)</u></u>	<u><u>\$ (38,785)</u></u>
Pledged collateral (market value) located at:	Minneapolis, MN	
FN AP2123 3%; 08/01/2042; #3138M5LD9	\$ 752	\$ 752
FN AR1196 3%; 01/01/2043; #3138NXKJ5	132,251	132,251
	<u> </u>	<u> </u>
Totals	<u><u>\$ 133,003</u></u>	<u><u>\$ 133,003</u></u>
Reconciliation to Financial Statements:		
Total per banks	\$ 593,576	\$ 593,576
Reconciling items:		
Deposits in transit	-	-
Outstanding checks	<u>(23,977)</u>	<u>(23,977)</u>
Total per financial statements	<u><u>\$ 569,599</u></u>	<u><u>\$ 569,599</u></u>

Hammond Conservancy District
SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
For the Year Ended 12/31/2015

Prepared by Agency Staff Name: Teresa Lane Title: Office Manager Date 12/31/15

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
None								