

OFFICE OF THE STATE AUDITOR
Timothy M. Keller



New Mexico Central Arizona Project
Financial Statements and Schedules
With
Independent Auditors' Report
For the Fiscal Year Ended June 30, 2016

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
June 30, 2016**

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**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT**

**Official Roster
June 30, 2016**

<u>Name</u>	<u>Title</u>
Darr Shannon	Hidalgo Soil & Water Conservation District, Board Chair
Van J. (Bucky) Allred	Catron County
Gabe Ramos	Grant County
Vance Lee	Hidalgo County
Javier Diaz	Luna County
Aaron Sera	City of Deming
Arthur Clark Smith	City of Lordsburg
Richard Bauch	Village of Santa Clara
Howard Hutchinson	San Francisco Soil & Water Conservation District
Esker Mayberry	Fort West Irrigation Association
Wendel Hann	Gila Farm Irrigation Association
Allen D. Campell	Gila Hotsprings Irrigation Association
Robert J. Agnew	Upper Gila Irrigation Association
Kim Abeyta-Martinez	Interstate Stream Commission

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Darr Shannon, Board Chair
New Mexico Central Arizona Project Entity
Lordsburg, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund of the New Mexico Central Arizona Project entity (NMCAP) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the NMCAP's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the NMCAP, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require Schedule I and II and the Notes to the Required Supplementary Information on pages 25 through 26 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 Vendor Information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 on our consideration of the NMCAP'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 NMCAP's internal control over financial reporting and compliance.

Office of the State Auditor

Office of the State Auditor
Santa Fe, New Mexico
December 14, 2016

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
STATEMENT OF NET POSITION
June 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 4,176
Receivables from other governments	52,012
Total Current Assets	56,188
Total Assets	56,188
 LIABILITIES	
Current Liabilities:	
Accounts Payable	51,947
Salaries Payable	1,959
Compensated Absences Payable	3,196
Due to City of Deming	5,000
Total Liabilities	62,102
Deferred Inflows - Pension Related	2,645
Total Deferred Inflows	2,645
 NET POSITION	
Unrestricted deficit	(8,559)
Total Deficit Net Position	\$ (8,559)

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Arizona Water Settlement	183,501	\$ -		\$ -	\$ (183,501)
Total governmental activities	<u>183,501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(183,501)</u>
General Revenues:					
State Intergovernmental grant - Interstate Stream					174,942
Total General Revenues					<u>174,942</u>
Change in Net Position					(8,559)
Net Position - beginning					<u>-</u>
Net Position - ending					<u>\$ (8,559)</u>

**STATE OF NEW MEXICO
 NEW MEXICO CENTRAL ARIZONA PROJECT
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2016**

	<u>General Fund</u> <u>Fund 752</u>
ASSETS	
Cash and cash equivalents	4,176
Receivables from other governments	52,012
Total Assets	\$ 56,188
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	51,947
Salaries payable	1,959
Due to City of Deming	5,000
Total Liabilities	58,906
Fund Balances:	
Unassigned	(2,718)
Total Fund Balances	(2,718)
Total Liabilities and Fund Balances	\$ 56,188

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total fund balance, governmental funds	\$ (2,718)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Short-term liabilities and not due and payable in the current period and therefore are not reported in the government funds:	
Compensated Absences	(3,196)
Certain liabilities, are not due and payable in the current period and therefore are not in the funds:	
Defined benefit pension plan deferred inflows	(2,645)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ (8,559)</u>

STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ending June 30, 2016

	<u>General Fund</u> <u>Fund 752</u>
REVENUES	
Intergovernmental	174,942
Total Revenues	174,942
 EXPENDITURES	
Current:	
Personnel Services & Employee Benefits	41,196
Contractual Services	109,310
Other	27,154
Total Expenditures	177,660
Excess (Deficiency) of Revenues Over Expenditures	(2,718)
Net Change in Fund Balances	(2,718)
Fund Balances - beginning	-
Fund Balances - ending	\$ (2,718)

**STATE OF NEW MEXICO
 NEW MEXICO CENTRAL ARIZONA PROJECT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 For the Year Ending June 30, 2016**

Net change in fund balance,- total governmental funds: \$ (2,718)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Change in Compensated Absences (3,196)

Governmental funds report NMCAP pension contribution as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense (2,645)

Change in Net Position \$ (8,559)

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND - 752
For the Year Ending June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Intergovernmental	208,864	208,864	174,942	(33,922)
Total Revenues	<u>208,864</u>	<u>208,864</u>	<u>174,942</u>	<u>(33,922)</u>
EXPENDITURES				
Personnel Services & Employee Benefits	48,846	39,077	41,196	(2,119)
Contractual Services	79,370	99,370	109,310	(9,940)
Other	80,648	60,648	27,154	33,494
Total Expenditures	<u>208,864</u>	<u>199,095</u>	<u>177,660</u>	<u>21,435</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>9,769</u>	<u>(2,718)</u>	<u>(12,487)</u>
Net Change in Fund Balances	-	9,769	(2,718)	12,487
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ 9,769</u>	<u>\$ (2,718)</u>	<u>\$ 12,487</u>

STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Function

In 2004, the Arizona Water Settlement Act in conjunction with the Colorado River Basin Act of 1968 allocated an annual average of 14,000 acre feet per year of Arizona Water Settlement Act water to the State of New Mexico for beneficial use. On November 24, 2014, the Interstate Stream Commission, voted to pursue the New Mexico Unit of Central Arizona Project and provide notification to the US Secretary of Interior that the State of New Mexico intends to construct a New Mexico Unit for purposes of utilizing Arizona Water Settlement Act water.

On July 27, 2015, the New Mexico Central Arizona Project (NMCAP) was created and a Joint Powers Agreement between the Village of Santa Clara, the Cities of Deming, Lordsburg, the Counties of Catron, Grant, Luna and Hidalgo, and other parties recognized by the State of New Mexico as political subdivisions: the Upper Gila Irrigation Association, the Fort West Irrigation Association, the Gila Farm Irrigation Association, the Gila Hotsprings Irrigation Association, the Hidalgo Soil and Water Conservation District, the San Francisco Soil and Water Conservation District, and the Interstate Stream Commission for purposes of designing, constructing, operating and maintaining uses of the Arizona Water Settlement Act water allocated to New Mexico for beneficial use in New Mexico.

The Joint Powers Agreement outlines the Interstate Stream Commission (ISC) as the first fiscal agent. The ISC administers the distribution of money to the NMCAP pursuant to Paragraphs (2)(D)(i) and (ii) of Section 403(f) of the federal Colorado River Basin Project Act of 1968, as amended by Section 107(a) of the federal Arizona Water Settlements Act, Public Law 108-451, December 10, 2004, and other money made available to the fund pursuant to Section 212 of the federal Arizona Water Settlements Act, Public Law 108-451, December 10, 2004, in addition to appropriations, grants, and donations or bequests to the fund. The provisions of federal law establish that the purpose of money in the fund is to pay the costs of the New Mexico unit or other water utilization alternatives to meet water supply demands in the southwest water planning region of New Mexico, as determined by the Interstate Stream Commission in consultation with the NMCAP, including costs associated with planning and environmental compliance activities and environmental mitigation and restoration.

The City of Deming is identified as the Second Fiscal Agent. The City of Deming is a political subdivision of the State, other than the ISC, who receives and manages all Arizona Water Settlement Act related revenues generated by the NMCAP. Revenues include reimbursements from the New Mexico Unit Fund pursuant to an operating budget approved by the ISC for purposes of planning, design, construction, operation and maintenance of the New Mexico Unit. The City of Deming is required to account for Arizona Water Settlement Act monies on behalf of the NMCAP in a separate fund. This fund is identified in the City of Deming general ledger as Fund 752.

STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016

The financial statements for the NMCAP have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. More significant of these accounting policies are described below.

The NMCAP complies with GASB #54. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation.

The above statement did not have a significant impact on the financial statements of the NMCAP.

A. Financial Reporting Entity

The chief executive of the NMCAP is the Board Chair, who is appointed by the fourteen member board. The board is made up of one representative from each district in the region outlined in the Joint Powers Agreement. The financial statements include all funds, account groups and activities over which the Board has oversight responsibility.

The NMCAP is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The Board has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In accordance with the criteria set forth in GASB # 39 and # 61 for determining component units, the NMCAP does not have component units.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the NMCAP as a whole) and fund financial statements. The reporting model focus is on either the NMCAP as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. The

STATE OF NEW MEXICO
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June 30, 2016

NMCAP is a single purpose government entity and has no business-type activities. In the government-wide Statement of Net Position, the governmental activities column are presented on a consolidated basis by column using the economic resources measurement focus and the accrual basis of accounting and incorporates long-term assets and receivables as well as long-term debt and obligations. Additionally internal activity has been eliminated at this level of presentation.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (education, labor, transportation, etc.), which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation expense on capital assets) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function which consists of grants and fees. The net cost is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc). Historically, the previous model did not summarize or present net cost by function or activity. The City of Deming as deemed in the NMCAP approved budget shall receive an annual administrative fee for services provided by the City to the NMCAP set at 7% of budgeted revenues.

This government-wide focus is more on the sustainability of the NMCAP as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds of the governmental categories. Non-major funds (by category) or fund type are summarized into a single column. The NMCAP has only one fund, the General Fund.

The governmental fund statements are presented on the current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the NMCAP's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation. The NMCAP has no fiduciary funds.

C. Basis of Presentation

The financial transactions of the NMCAP are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses, and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are

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Notes to Financial Statements
June 30, 2016**

controlled. The various funds are summarized by type in the accompanying financial statements.

The NMCAP uses the following fund types:

Governmental Fund Types

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary measurement focus. Expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. The following is a description of the Governmental Funds of the NMCAP.

The **General Fund** is the general operating fund of the NMCAP and is used to account for all financial resources except those required to be accounted for in another fund. The general fund is reported by amounts received from the New Mexico Unit Fund from the ISC. This is a non-reverting fund. The General Fund is identified in the City of Deming's Triatic accounting system fund 752.

Non-Current Governmental Assets/Liabilities

GASB Statement #34 eliminated the presentation of Account Groups for fixed assets and long-term debt but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Position.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applies.

The Government-wide Financial Statements Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016

Accrual

Under the accrual method of accounting revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

All governmental funds utilize the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and other governmental fund resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period; "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The NMCAP considers funds available if received within "60 days" after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred and all other eligibility requirements are met. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. Revenues collected for future periods are deferred until available. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are accrued as current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principle described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, Accounting and Financial Reporting for Nonexchange Transactions the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

E. Budgets and Budgetary Accounting

The Interstate Stream Commission (ISC) makes annual authorization for reimbursement expenses of the NMCAP. The expenditures detail all expenditures from the NM Unit Fund. Legal compliance is monitored through the establishment of a budget (modified accrual basis) and a financial control system, which permits a budget to actual expenditures.

STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016

The NMCAP follows these procedures in establishing the budgetary data reflected in the statements:

1. Each May 1st, the NMCAP develops and submits a budget request for the upcoming state fiscal year. The request includes proposed expenditures to carry out the purpose of designing, constructing and maintaining a New Mexico Unit.
2. The annual budget request is presented to the ISC for approval at the first ISC meeting following May 1st of each year.
3. The ISC approval is granted which the budget then becomes authorized.
4. Formal budgetary integration is employed as a management control function during the fiscal year for the General Fund.
5. In the event the NMCAP must amend its operating budget after it has been approved by the ISC, the NMCAP is required to present its amended budget to the ISC and obtain ISC approval before reimbursement for expenses contained in the amended budget occur.

F. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. All current year encumbrances lapsed at year-end.

G. Assets, Liabilities and Fund Balance

1. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits. Cash is on deposit at First Saving Bank – Deming.

2. Receivables

The NMCAP's receivables are from reimbursement for expenditures occurred prior to June 30, 2016 from the NM Unit Fund. Timing differences between expenditures and ISC reimbursement can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent amounts expended during the fiscal year that are related to the NM Unit, however the reimbursement for expenditure was not received prior to end of the fiscal year.

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Notes to Financial Statements
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3. Due to/Due From Other Governmental Entities

These are short term amounts owed between entities and are classified as “Due to/Due from Other Governmental Entities.” The City of Deming has transferred in funds to the NMCAP at year end to cover payroll expenditures at year end.

4. Capital Assets

Property, plant and equipment purchased or acquired at a value of \$5,000 or greater are capitalized per Section 12-6-10 NMSA 1978. NMCAP did not acquire any capital assets to meet capitalization amounts at June 30, 2016.

5. Compensated Absences

Qualified employees are entitled to accumulate annual leave according to a rate of 10 hours per month. A maximum of thirty working days (240 hours) of accumulated annual leave may be carried forward into the beginning of the calendar year leave is lost.

When employees terminate, they are compensated for all unused annual leave up to 240 hours and sick time equal to that in which that is provide to all other employees of the City of Deming.

Employees are salary, thus no compensatory time is provided to individuals when overtime is needed.

6. Deferred Inflows/Outflows

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflows of resources (expense/expenditures) until then.

In addition to liabilities the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an inflows of resources (revenue) until then.

7. Reservation of Fund Balance

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NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016

The Department complies with GASB 54-Fund Balance Reporting and Governmental Fund Type Definitions. The pronouncement provides modifications to, and additional types of, fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds.

The definition of each classification is summarized below:

Non-Spendable Fund Balance

The nonspendable fund balance classification is the portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted Fund Balance

The restricted fund balance classification is the portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants). Grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

The committed fund balance classification is the portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority.

Assigned Fund Balance

The assigned fund balance classification is the portion of fund balance that are constrained by the government's *intent* to be used for specific purposes, but that are neither restricted nor committed.

Unassigned Fund Balance

The unassigned fund balance classification is the portion of fund balance that is residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The NMCAP has identified fund balances as restricted for purposes of funds by the NM Unit Fund.

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NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016**

H. Net Position

The government-wide Fund Financial Statements utilize a net position presentation. Net position is categorized as either investment in capital assets, restricted and unrestricted.

Restricted Net Position (Deficit) - are liquid assets (generated from revenues and not bond proceeds), which have third-party constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation limiting their use.

Unrestricted Net Position (Deficit) - represent all other unrestricted liquid assets that do not meet the definition of "restricted net position" or "net invested in capital assets".

Unrestricted deficit results mainly from the recording of the compensation absences liability and litigation liability for which future appropriations will pay the liability. The amount of deficit net position is \$8,559.

I. Use of Estimates

Management of the NMCAP has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash

At June 30, 2016, the NMCAP had cash and cash equivalents on deposit with local financial institutions, consisting of a checking account. Following is a schedule as of June 30, 2016, of the cash and cash equivalents.

	First Saving Bank Deming
Amounts of Deposits	\$ 4,176
FDIC Coverage	\$ (4,176)
Total uninsured public funds	\$ -

In accordance with Section 6-10-17, NMSA 1978, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016**

other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the NMCAP’s deposits may not be returned to them. The NMCAP does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$0 of the NMCAP’s bank balance of \$4,176 was exposed to custodial credit risk.

NOTE 3: ACCOUNTS RECEIVABLE

During, the current fiscal year the NMCAP had receivables for reimbursement for expenditures incurred prior to June 30, 2016 from the NM Unit Fund. Total grant receivables were \$52,012.

NOTE 4: DUE FROM AND DUE TO OTHER GOVERNMENTAL ENTITIES

Amount from and due to other Governmental Entities represent receivables and payables arising from transferring funds collected by the City of Deming and expended by the NMCAP. These are routine transactions that occur monthly or annually associated with payroll expenditures and instances surrounding the reimbursement timing from ISC for expenditures incurred. These amounts are eliminated on the government-wide financial statements. All due to are expected to be repaid in the next fiscal year.

Due to City of Deming

<u>Fund Type</u>	<u>Triatic Fund Number</u>	<u>Due to City of Deming</u>	<u>Due to Triatic Fund Number</u>	<u>Amount</u>
General Fund	752	\$ 5,000	101	\$ 5,000
Totals		<u>\$ 5,000</u>		<u>\$ 5,000</u>

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NEW MEXICO CENTRAL ARIZONA PROJECT
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NOTE 5: CHANGES IN SHORT-TERM LIABILITIES

The changes in short-term liabilities for government type activities for the year ended June 30, 2016 was as follows:

Compensated Absences:	Beginning Balance 06/30/2015	Additions	Deletions	Ending Balance 6/30/2016
Annual Leave	\$ -	\$ 1,598	\$ -	\$ 1,598
Sick Leave	\$ -	\$ 1,598	\$ -	\$ 1,598
Total Short-Term Liabilities	\$ -	\$ 3,196	\$ -	\$ 3,196

The estimated amount expected to be paid in Compensated Absences within one year is \$3,196, which is listed on the Statement of Net Position.

NOTE 7: PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description: The Public Employees Retirement Fund (PERA Fund) is a **cost-sharing, multiple employer defined benefit pension plan**. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978).

Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA fund.

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June 30, 2016

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 366.

Benefits provided. For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2016 available at: <http://www.nmpera.org/financial-overview/comprehensive-annual-financial-report>.

Contributions. The contribution requirements of defined benefit plan members and the City of Deming are established in State Statute under Chapter 10, Article 11 NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY15 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 31 through 32 of the PERA FY15 annual audit report at http://www.saonm.org/media/audits/366_Public_Employees_Retirement_Association_FY2015.pdf

The PERA coverage options that apply to the NMCAP are through the City of Deming. This is the first year of the NMCAP's existence and thus the employee only contributed to PERA for the last four months of the fiscal year. Statutorily required contributions to the pension plan from the NMCAP were \$4,057, and there were \$2,645 employer paid member benefits that were "picked up" by the employer for the year ended June 30, 2016.

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

This is the first year of the NMCAP's existence and thus the employee only contributed to PERA for the last four months of the fiscal year. No available data is incorporated for the measurement date of June 30, 2015.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred inflows and outflows were performed separately for each of the membership groups.

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June 30, 2016**

For PERA Fund Municipal General Division, at June 30, 2016, the NMCAP reported a liability of \$2,645 for its proportionate share of the net pension liability. The NMCAP is a new entity at such time at June 30, 2015, the NMCAP's does not have a reporting proportion percentage.

	Deferred Outflow of Resources
Changes in assumptions	\$ -
Net difference between projected and actual earnings on pension plan investments	\$ -
NMCAP's contribution subsequent to measurement date	\$ 2,645
Total	\$ 2,645

\$2,645 reported as deferred outflows of resources related to pensions resulting from the NMCAP's contributions subsequent to measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.75% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	3.50% annual rate
Projected salary increases	3.50 to 14.25% annual rate
Includes inflation at	3.00% annual rate
Mortality assumptions	RP-200 mortality tables (combined table for Healthy post-retirements, Employee table

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
Notes to Financial Statements
June 30, 2016**

Experience study date	for active members, and disabled table for disabled retirees before retirement age) with projections to 2018 using scale AA. July 1, 2008 to June 30, 2013
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The long term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	21.10%	5.00%
International Equity	24.80	5.20
Private Equity	7.00	8.20
Core and Global Fixed Income	26.10	1.85
Fixed Income Plus Sectors	5.00	4.80
Real Estate	5.00	5.30
Real Assets	7.00	5.70
Absolute Return	4.00	4.15
	Total 100.00%	

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

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, this is the first year of reporting for the NMCAP. The NMCAP's net pension liability in the PERA Fund Division that NMCAP participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

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June 30, 2016

Payables to the pension plan. NMCAP remits the legally required employer and employee contributions on a monthly basis to PERA. PERA requires that the contributions be remitted by the 15th day of the month following the month for which contributions are withheld. At June 30, 2016 the NMCAP owed the PERA \$661 for the contributions withheld in the month of June 2016.

NOTE 8: POST-EMPLOYMENT BENEFITS: STATE RETIREE HEALTH CARE PLAN

Plan Description. NMCAP contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

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June 30, 2016

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The NMCAP's contribution to the RHCA for the years ended June 30, 2016 were \$636. This is the first year of existence of the NMCAP thus there are no previous contributions to the RHCA.

NOTE 9: DEFICIT FUND BALANCE AND DEFICIT NET POSITION

The NMCAP has identified fund balances as unassigned deficit for purposes of funds received from the NM Unit Fund. The NMCAP is reimbursed for expenditures incurred prior to June 30, 2016 from the NM Unit Fund administered by the Interstate Stream Commission.

At June 30, 2016 the NMCAP reported an unassigned (deficit) fund balance of \$2,718 and an unrestricted deficit net position of \$8,559.

NOTE 10: SUBSEQUENT EVENTS REVIEW

A review of subsequent events through December 14, 2016 revealed no subsequent events which require disclosure.

STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Schedule I

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS*

	2016 Measurement Date (As of and for year ended June 30, 2015)
NMCAP's proportion of the net pension liability	0.00%
NMCAP's proportionate share of the net pension liability	\$ -
NMCAP's covered-employee payroll	\$ -
NMCAP's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	0.00%

*The NMCAP is a new entity at June 30, 2016. Thus there was no amounts to present at the measurement date as of and for the year ended June 30, 2015. The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, NMCAP will present information for those years for which information is available.

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
SCHEDULE OF NMCAP'S CONTRIBUTIONS**

Schedule II

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
PERA MUNICIPAL GENERAL DIVISION
LAST 10 FISCAL YEARS***

	<u>As of and for the Year Ended June 30, 2016</u>	<u>As of and for the Year Ended June 30, 2015</u>
Contractually required contributions	\$ 2,645	\$ -
Contributions in relation to the contractually required contributions	(2,645)	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
NMCAP's covered-employee payroll	\$ 27,692	\$ -
Contributions as a percentage of covered-employee payroll	9.56%	0.00%

*The NMCAP is a new entity at June 30, 2016. Thus there was no amounts to present at the measurement date as of and for the year ended June 30, 2015. The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, NMCAP will present information for those years for which information is available.

Notes to Required Supplementary Information

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY 2015 audit available at: http://www.saonm.org/media/audits/366_Public_Employees_Retirement_Association_FY2015.pdf

Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at <http://www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/6-30-2015-PERA-Valuation-Report-FINAL.pdf>

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
JUNE 30, 2016**

Schedule of Vendor Information

<i>RFP#</i>	<i>Agency Name</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Contract Awarded</i>	<i>\$ Amount of Contract Amended</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>
RFP 16-05	New Mexico Central Arizona Project	Competitive (RFP or RFB)	Domenici Law Firm, P.C.	Winner	\$105,059	\$30,000	320 Gold Ave SW, Ste #1000 Albuquerque, NM 87102	Yes	Yes	NMCAP Attorney Services
RFP 16-05	New Mexico Central Arizona Project	Competitive (RFP or RFB)	Sheehan & Sheehan	Winner	\$3,600	\$0	PO Box 271 Albuquerque, NM 87103	Yes	Yes	NMCAP Attorney Services
RFP 16-05	New Mexico Central Arizona Project	Competitive (RFP or RFB)	Keleher & McLead	No	\$0	\$0	201 Third Street NW, 12th Floor Albuquerque, NM 87102	Yes	Yes	NMCAP Attorney Services



Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Darr Shannon, Board Chair
New Mexico Central Arizona Project Entity
 Lordsburg, 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 governmental activities, each major fund, and the budgetary comparison of the general fund of the New Mexico Central Arizona Project Entity (NMCAP) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise NMCAP's, basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 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. We did identify certain deficiencies in internal control, described in the

accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2016-01 and 2016-03.

Compliance and Other Matters

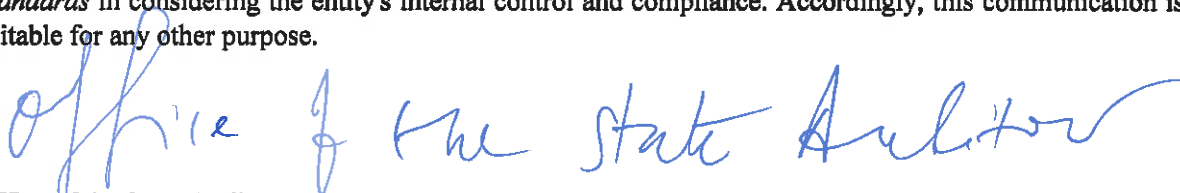
As part of obtaining reasonable assurance about whether the NMCAP's, financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material 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 2016-02 and 2016-04.

The NMCAP's, Response to Findings

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

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.



Office of the State Auditor
Santa Fe, New Mexico
December 14, 2016

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
June 30, 2016**

Schedule of Findings and Responses

Summary of Prior Year Findings

There are no prior year findings. This is the first year of audit for this entity.

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
June 30, 2016**

Schedule of Findings and Responses

2016-01 Purchase Order Documentation (Significant Deficiency)

Condition

During our testing of cash disbursements, we identified the following two instances out of twenty items tested;

- One instance where purchase order documentation was not available for our review.
- One instance where a purchase order change order was not available for our review.
- One instance was noted that services were received in the amount of \$27,772 before a purchase order was put into place. A formal RFP was approved by the Board on March 1, 2016. It was noted that these expenditures occurred prior to a purchase order being established.

Criteria

Per the Second Fiscal Agent's Accounting Policies and Procedures purchase orders should be created and maintained for the file whenever appropriate. As an appropriate form of budgetary measurement a purchase order should be established to ensure a proper encumbrance of funds has taken place to prevent over-expending authorized budget amounts. State statute 13-1-125 NMSA 1978 states that small purchases shall be procured for services in accordance with the applicable small purchase rules adopted by the local public body.

Cause

Purchase orders were not maintained in the file pursuant to Accounting Policies and Procedures.

Effect

Non-compliance with applicable purchasing requirements could place the NMCAP at risk for fraud or misuse of public funds.

Recommendation:

We recommend that all personnel be properly trained on applicable policies regarding purchasing of goods, services, or construction. The entity should review its process for complying with rules and regulations and should maintain proper documentation in the procurement files.

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
June 30, 2016**

Schedule of Findings and Responses

Management Response:

The one instance referenced above where purchase order documentation was not available for review, the purchase was for advertisement and a purchase order is not required or deemed appropriate by policy and New Mexico State Statute. The above mentioned instance where a purchase order change order was not available, the City Administrator will issue a memo stating that any change order to a purchase needs to be documented in detail to be incorporated into purchasing policy. The City of Deming personnel is properly trained in city and state policy in purchasing of goods, services, and construction. The city does review and will continue to review its process for compliance with rules and regulations ensuring proper documentation is maintained in the procurement files.

Responsible Person and Timeline for Correction:

The Finance Director/Treasurer and the Accounts Payable Clerk are the responsible parties and the correction has already taken place.

2016-02 Over Reimbursement of Per Diem (Finding that do not rise to level of a Significant Deficiency)

Condition

During our test work it was noted that per diem was not calculated correctly and an employee was overpaid by \$45. The overpayment was identified by the Fiscal Agent and the employees' reimbursement was decreased in the subsequent request submission.

Criteria

The Mileage and Per Diem Act (2.42.2.9.B3) requires that receipts for reimbursement of actual expenses for meals and lodging be provided.

The Second Fiscal Agent's Accounting Policies also state that accounting staff will review and check to ensure that all receipts provided match the reimbursement form.

Cause

The amount reported on the mileage and per diem voucher form was not calculated correctly.

**STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
June 30, 2016**

Schedule of Findings and Responses

Effect

Non-compliance with the Mileage and Per Diem Act could place the NMCAP at risk for fraud or misuse of public funds.

Recommendation

The NMCAP and its Second Fiscal Agent should review all Mileage and Per Diem Voucher requests to ensure receipts and calculations are accurate and in accordance with state statute.

Management Response

The Mileage and Per Diem Act (2.42.2.9.B3) requirement that receipts for reimbursement of actual expenses for meals and lodging be accompanied, the reimbursement was followed with proper documentation and reviewed by the NMCAP and its Second Fiscal Agent staff in accordance with the Act. The error was in the calculation of the reimbursement. Through The City of Deming's own internal controls, the error was discovered and corrected. The Mileage and Per Diem Act (2.42.2.9.B3) was not violated. The City of Deming will continue to review receipts and calculations for accuracy and abiding with the state statute. The City Finance Director and Accountant will also continue to make corrections for human errors in a timely manner.

Responsible Person and Timeline for Correction:

The Finance Director/Treasurer and the Accountant are the responsible parties. The City already corrected the error prior to the audit.

2016-03 Open Meetings Act Violation (Significant Deficiency)

Condition

The NMCAP held four closed meetings January 14, 2016, February 2, 2016, March 1, 2016 and April 5, 2016. Discussion included procurement of engineering services. The violation was confirmed by the New Mexico Office of Attorney General in a written response on July 12, 2016 which states that the NMCAP entity violated the Open Meetings Act.

Criteria

The "Open Meetings Act" NMSA 1978, Chapter 10, Article 15, (2010) states the following:

STATE OF NEW MEXICO
NEW MEXICO CENTRAL ARIZONA PROJECT
June 30, 2016

Schedule of Findings and Responses

•10-15-1(D) states “Any meetings at which the discussion or adoption of any proposed resolution, rule, regulation or formal action occurs and at which a majority or quorum of the body is in attendance, and any closed meetings, shall be held only after reasonable notice to the public. The affected body shall determine at least annually in a public meeting what notice for a public meeting is reasonable when applied to that body. That notice shall include broadcast stations licensed by the federal communications commission and newspapers of general circulation that have provided a written request for such notice.”

Cause

NMCAP did not adhere to the requirements of the Open Meeting Act.

Effect

The NMCAP violated the Open Meetings Act by discussing the intent to procure services in a closed meeting.

Recommendation

We recommend that all personnel receive training on the requirements of the Open Meeting Act.

Management Response

The New Mexico CAP Entity is not in violation of the Open Meetings Act. The violation identified by the NM AG was resolved by the NM CAP at its August 2, 2016 meeting, as shown by the attached meeting minutes and as explained to the NM AG in the August 9, 2016 letter from the Domenici Law Firm to Dylan K. Lange.

The engineering contract that was the subject of the closed meetings was not an NM CAP contract and does not have any bearing on the NM CAP’s finances. The engineering services were procured by the ISC based on an RFP issued by the ISC, not by the NM CAP. All costs of the engineering work were paid by the ISC. The only role played by the NM CAP was to assist in developing and approving the scope of work for the selected engineering firm. (See April 7, 2016 letter from the Domenici Law Firm to Dylan K. Lange at page 2).

The following is a summary of the OMA issue and its resolution:

On March 28, 2016, the NM CAP received a letter from the New Mexico AG’s office concerning alleged violations of the OMA in conjunction with the January 14 and March 1, 2016 meetings. (See attached letter from Dylan K. Lange to Darr Shannon, March 28, 2016). On April 7, 2016, the NM CAP provided its response to the NM AG, explaining why the meetings were closed in reliance on specific provisions of the OMA and the New Mexico Procurement Code. (See attached

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letter from the Domenici Law Firm to Dylan K. Lange, April 7, 2016, at pages 2 to 6, in particular items 4, 6, and 9).

As explained to Mr. Lange, the NM CAP closed the meetings at the request of the Interstate Stream Commission (ISC), which is a member of the NM CAP. The ISC required the discussions regarding contract negotiations be held in closed session based on the Attorney General's Open Meetings Act Compliance Guide, page 28, example 56, as well as Section 10-15.1.H(6) of the OMA and the Procurement Code regulations. The NM CAP complied and relied on these provisions to close the meetings.

On July 12, 2016, the NM CAP was notified that the AG believed the NM CAP violated the OMA by conducting closed sessions at the meetings in question. The NM AG directed that the violations be corrected as follows:

“We advise the NM CAP entity to take measures to correct the violations, including addressing the violations at a properly noticed, open meeting. The open meeting should include a summary of the substance of the matters improperly discussed in each of the closed sessions. Within 30 days of the date of this determination, please provide us with a copy of the public notice, agenda and minutes for the meeting held to take corrective action.”

(See attached letter from Dylan K. Lange to Pete Domenici, July 12, 2016, at page 4).

On August 9, 2016, the NM CAP provided a response to Mr. Lange. As stated in the letter, the NM CAP continued to have concerns about inconsistencies between the AG Compliance Guide, which is available on the AG's website, the language of the OMA, and the Procurement Code regulations, and the conclusion that the NM CAP violated the OMA. Despite these concerns, the NM CAP, at its August 2, 2016 meeting, took the required action set forth in the July 12, 2016 letter from Mr. Lange. A copy of the meeting notice, meeting agenda and meeting minutes were provided to Mr. Lange. No additional correspondence has been received from Mr. Lange or anyone else at the AG's office.

The actions taken by the NM CAP at the August 2, 2016 meeting complied with the requirements of the OMA and the NM CAP is not in violation of the OMA.

Responsible Person and Timeline for Correction:

The Chairperson for the CAP Entity is the responsible party. The correction has already taken place prior to the audit.

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Auditor Rebuttal

Audit evidence obtained resulted in a letter dated July 12, 2016 from the New Mexico Attorney General's Office. Review of the July 12, 2016 letter concluded that the NMCAP entity violated the Open Meeting Act when discussing matters in closed session. The Office of the State Auditor is relying on the letter from the Attorney General's Office as sufficient audit evidence to support the finding.

2016-04 Controls Over Payroll (Finding that do not rise to level of a Significant Deficiency)

Condition

During our review and test work related to payroll controls we noted that there was no policy in place to ensure proper supervisor approval of leave taken or time worked by the employee.

Criteria

Appropriate segregation of duties for disbursements is required to maintain proper and sufficient internal controls and properly report all expenditures as required by Section 6-6-3, NMSA 1978. The NMCAP should establish and maintain an internal control structure to provide management with reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with GAAP.

Cause

NMCAP does not have a policy in place for approval of employee time. It appears the supervisor was not properly verifying time sheets.

Effect

Employees could be paid for time they did not work or be compensated for leave that was not accrued.

Recommendation

NMCAP should implement a formal control in collaboration with the Second Fiscal Agent's payroll staff to ensure that timesheets and leave requests are reviewed and approved prior to submission to the Payroll Clerk for processing.

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The City of Deming Accounting Policy and Procedures states that personnel are to submit timesheets and timesheets are to include specific time clocked in and out for the day worked. The employee is a contract employee who is paid a set salary and is not required to submit a timesheet with documentation for time clocked in and out for the day worked. The NMCAP will work in collaboration with the Second Fiscal Agent's payroll staff to ensure that the necessary documents for payroll are received. Timesheets submitted by contract employee are at the discretion of the employee for recordkeeping purposes and are not required by the City for payroll. The City of Deming payroll staff will no longer accept documents from contract employee that is not needed for payroll and not in line with accounting policy and procedures.

Responsible Person and Timeline for Correction:

The Accountant and Finance Director/Treasurer are the responsible parties. The City has already made the corrections.

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Exit Conference

An exit conference was held on December 14, 2016. In attendance were the following:

Representing the NMCAP:

Darr Shannon, Board Chair (on telephone)

Anthony Gutierrez, Executive Director (on telephone)

Representing the NMCAP's 2nd Fiscal Agent:

Benny Jasso, City of Deming Mayor

Aaron Sera, City of Deming City Manager

Laura Holguin, City of Deming Finance Director/Treasurer

Representing the State Auditor's Office:

Sanjay Bhakta, CPA, CGFM, CFE, CGMA - Deputy State Auditor

Anna Williams, CPA – Financial Division Director

Jessica Lucero – Audit Supervisor

FINANCIAL STATEMENTS

The accompanying financial statements of the NMCAP have been prepared by the Office of the State Auditor. However, the financial statements are the responsibility of management.