

New Mexico Central Arizona Project
Financial Statements
For the Year Ended June 30, 2017

NM CAP Entity

It's about the water!

New Mexico Central Arizona Project Entity



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STATE OF NEW MEXICO
New Mexico Central Arizona Project
June 30, 2017
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STATE OF NEW MEXICO
New Mexico Central Arizona Project
Official Roster
June 30, 2017

<u>Name</u>	<u>Board of Directors</u>	<u>Title</u>
Darr Shannon (Hidalgo Soil and Water Conservation District)		Chair
Vance Lee (Hidalgo County)		Vice Chair
Bucky Allred (Catron County)		Secretary
Aaron Sera (City of Deming)		Member
Frank Madrid (City of Lordsburg)		Member
John Sweetser (Luna County)		Member
Gabe Ramos (Grant County)		Member
Richard Bauch (Village of Santa Clara)		Member
Allen Campbell (Hot Springs Irrigation Commission)		Member
Robert Agnew (Upper Gila Irrigation Commission)		Member
Joe Runyan (Gila Farms Irrigation Commission)		Member
Esker Mayberry (Fort West Irrigation Commission)		Member
Howard Hutchison (San Francisco Soil and Water Conservation District)		Member
Ty Bays (Grant Soil and Water Conservation District)		Member
John Longworth (Interstate Stream Commission)		Member

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
New Mexico Central Arizona Project
Wayne A. Johnson
New Mexico State Auditor
Lordsburg, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison of the General Fund of the New Mexico Central Arizona Project (NMCAP), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise 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 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.

Auditors' 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to NMCAP'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 NMCAP'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, each major fund, and the budgetary comparison of the General Fund of New Mexico Central Arizona Project, as of June 30, 2017, and the respective changes in financial position thereof, 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 the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 the 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 that Schedules I and II and notes to the Required Supplementary Information on pages 38 through 40 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 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise NMCAP's basic financial statements. The Supporting Schedule I required by 2.2.2 NMAC is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The Supporting Schedule I required by 2.2.2 NMAC are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supporting Schedule I required by 2.2.2 NMAC is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section 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 11, 2017, on our consideration of 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 NMCAP's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, slightly slanted style.

Cordova CPAs LLC
Albuquerque, New Mexico
December 11, 2017

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Current assets	
Cash	\$ 34,114
Receivables:	
Due from other governments	14,049
Total current assets	48,163
<i>Total assets</i>	48,163
Deferred outflows of resources	
Deferred outflows - pension related	24,270
<i>Total deferred outflows of resources</i>	24,270
<i>Total assets and deferred outflows of resources</i>	\$ 72,433

The accompanying notes are an integral part of these financial statements.

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 12,743
Accrued payroll	2,564
Due to other governments	35,000
	<hr/>
Total current liabilities	50,307
	<hr/>
Noncurrent liabilities	
Accrued compensated absences	4,233
Net pension liability	51,609
	<hr/>
Total noncurrent liabilities	55,842
	<hr/>
<i>Total liabilities</i>	106,149
	<hr/>
Deferred inflows of resources	
Deferred inflows - pension related	1,503
	<hr/>
<i>Total deferred inflows of resources</i>	1,503
	<hr/>
Net position	
Unrestricted	(35,219)
	<hr/>
<i>Total net position</i>	(35,219)
	<hr/>
<i>Total liabilities, deferred inflows of resources, and net position</i>	\$ 72,433
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Statement of Activities
For the Year Ended June 30, 2017

Exhibit A-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Arizona Water Settlement	\$ 342,254	\$ -	\$ 343,055	\$ -	\$ 801
<i>Total governmental activities</i>	<u>\$ 342,254</u>	<u>\$ -</u>	<u>\$ 343,055</u>	<u>\$ -</u>	<u>801</u>
Change in net position					<u>801</u>
Net position, beginning					(8,559)
Net position - restatement (Note 9)					<u>(27,461)</u>
Net position - as restated					<u>(36,020)</u>
<i>Net position, ending</i>					<u>\$ (35,219)</u>

The accompanying notes are an integral part of these financial statements.

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STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 Balance Sheet
 Governmental Funds
 June 30, 2017

Exhibit B-1

	General Fund 752
<i>Assets</i>	
Cash	\$ 34,114
Receivables:	
Due from other governments	14,049
<i>Total assets</i>	\$ 48,163
<i>Liabilities, deferred inflows of resources, and fund balance</i>	
<i>Liabilities</i>	
Accounts payable	\$ 12,743
Accrued payroll	2,564
Due to other governments	35,000
<i>Total liabilities</i>	50,307
<i>Fund balance</i>	
Spendable:	
Unassigned	(2,144)
<i>Total fund balance</i>	(2,144)
<i>Total liabilities, deferred inflows of resources, and fund balance</i>	\$ 48,163

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2017

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Fund balances - total governmental funds	\$ (2,144)
Deferred outflows related to pension	24,270
Deferred inflows related to pension	(1,503)
 Liabilities, including accrued compensated absences and net pension liability are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued compensated absences not due and payable	(4,233)
Net pension liability	<u>(51,609)</u>
 <i>Total net position - governmental activities</i>	 <u><u>\$ (35,219)</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Funds
 For the Year Ended June 30, 2017

Exhibit B-2

	General Fund
	752
<i>Revenues</i>	
Intergovernmental revenue:	
State direct	\$ 343,055
<i>Total revenues</i>	343,055
 <i>Expenditures</i>	
Current:	
Personnel services and benefits	133,355
Contractual and professional services	195,818
Other costs	13,308
<i>Total expenditures</i>	342,481
 <i>Net change in fund balance</i>	 574
 <i>Fund balance - beginning</i>	 (2,718)
 <i>Fund balance - end of year</i>	 \$ (2,144)

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2017

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

Net change in fund balance - total governmental funds	\$	574
Governmental funds report pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:		
Pension contributions subsequent to measurement date		9,025
Net pension expense		(7,761)
Increase in accrued compensated absences not due and payable		<u>(1,037)</u>
<i>Change in net position of governmental activities</i>	<u>\$</u>	<u>801</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 General Fund - 752
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Intergovernmental revenue:				
State direct	\$ 1,337,184	\$ 1,337,184	\$ 416,018	\$ (921,166)
<i>Total revenues</i>	<u>1,337,184</u>	<u>1,337,184</u>	<u>416,018</u>	<u>(921,166)</u>
<i>Expenditures</i>				
Current:				
Personnel services and benefits	131,175	136,536	132,750	3,786
Contractual and professional services	1,146,000	1,146,000	235,651	910,349
Other costs	60,009	54,648	12,679	41,969
<i>Total expenditures</i>	<u>1,337,184</u>	<u>1,337,184</u>	<u>381,080</u>	<u>956,104</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>34,938</u>	<u>34,938</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	5,000	-	(5,000)
Transfers in	-	14,651	14,651	-
Transfers (out)	-	(19,651)	(19,651)	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
<i>Net change in fund balance</i>	-	-	29,938	29,938
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>4,176</u>	<u>4,176</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,114</u>	<u>\$ 34,114</u>
Net change in fund balance (Non-GAAP Budgetary Basis)				\$ 29,938
Adjustments to revenues for intergovernmental revenue				(67,963)
Adjustments to expenditures for operating and payroll expenditures				<u>38,599</u>
<i>Net change in fund balance (GAAP Basis)</i>				<u>\$ 574</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 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 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 NMCAP in a separate fund. This fund is identified in the City of Deming general ledger as Fund 752.

The summary of significant accounting policies of NMCAP is presented to assist in the understanding of NMCAP's financial statements. The financial statements and notes are the representation of NMCAP's management, who is responsible for their integrity and objectivity. The financial statements of NMCAP have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard 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 which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of NMCAP's accounting policies are described below.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

The chief executive of 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.

In evaluating how to define NMCAP, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate the potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, NM CAP does not have a component unit in fiscal year 2017.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on NMCAP as a whole) and fund financial statements. The reporting model focus is on either 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. 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.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basic Financial Statements (continued)

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 NMCAP approved budget shall receive an annual administrative fee for services provided by the City to NMCAP set at 7% of budgeted revenues.

This government-wide focus is more on the sustainability of 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. 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 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 government-wide presentation. NMCAP has no fiduciary funds.

C. Basis of Presentation

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

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 NMCAP.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The **General Fund** is the general operating fund of 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 No. 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.

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. 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.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 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 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. The legal level of budgetary control is at the fund level.

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

1. Each May 1st, 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 NMCAP must amend its operating budget after it has been approved by the ISC, 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

Cash and Cash Equivalents

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

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities and Fund Balance (continued)

Receivables

NMCAP's receivables are from reimbursement for expenditures occurred prior to June 30, 2017 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.

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." These amounts are described in the following disclosures.

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 does not maintain capital assets as of June 30, 2017.

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.

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.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities and Fund Balance (continued)

Reservation of Fund Balance

NMCAP 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.

STATE OF NEW MEXICO
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Notes to Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$35,219.

I. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA's. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. New Accounting Pronouncements

During the year ended June 30, 2017, NMCAP adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, No. 79, *Certain External Investment Pools and Pool Participants*, No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, are required to be implemented for the fiscal year ending June 30, 2017.

The pronouncement adopted that materially affects the financial statements and disclosures of the NMCAP for the year ended June 30, 2017 is GASB Statement No. 77 *Tax Abatement Disclosures*. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. During fiscal year 2017, no tax abatements were provided as forgone revenue for NMCAP from any other government entity.

STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 Notes to Financial Statements
 June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

In addition, effective for June 30, 2017 year ends, the requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that, for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets.

It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

K. Use of Estimates

Management of 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. DEPOSITS

Deposits

The collateral pledged is listed on Schedule III of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

At June 30, 2017, 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, 2017, of the cash and cash equivalents.

	First Savings Bank
Amount of deposits	\$ 20,517
FDIC Coverage	(20,517)
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 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.

STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 Notes to Financial Statements
 June 30, 2017

NOTE 2. DEPOSITS (continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, NMCAP’s deposits may not be returned to them. NMCAP does not have a deposit policy for custodial credit risk. As of June 30, 2017, none of NMCAP’s bank balance of \$20,517 was exposed to custodial credit risk.

NOTE 3. ACCOUNTS RECEIVABLE

During the current fiscal year NMCAP had receivables for reimbursement for expenditures incurred prior to June 30, 2017 from the NM Unit Fund. Total receivables were \$14,049.

NOTE 4. DUE TO OTHER GOVERNMENTS

Amounts due to other Governmental Entities represent payables arising from transferring funds collected by the City of Deming and expended by NMCAP. There was an amount due back to ISC for an overpayment of the administrative fee in the amount of \$35,000 as of June 30, 2017. This was paid back to ISC in fiscal year 2018.

NOTE 5. LONG-TERM LIABILITIES

The changes in short-term liabilities for government type activities for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ 3,196	4,444	3,407	\$ 4,233	\$ -

NOTE 6. OTHER REQUIRED DISCLOSURES

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

NMCAP has identified fund balances as unassigned deficit for purposes of funds received from the NM Unit Fund. NMCAP is reimbursed for expenditures incurred prior to June 30, 2017 from the NM Unit Fund administered by the Interstate Stream Commission. At June 30, 2017 NMCAP reported an unassigned (deficit) fund balance of \$2,144 and an unrestricted deficit net position of \$35,219.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 7. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Public Employees Retirement 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 Officers, 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 Public Employees Retirement 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), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits Provided – Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members.

Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%.

All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 Notes to Financial Statements
 June 30, 2017

NOTE 7. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Contributions – See PERA’s compressive annual financial report for Contribution provided description.

PERA Contribution Rates and Pension Factors as of July 1, 2016						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per Year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
State Plan 3	7.42 %	8.92 %	16.99 %	3.0 %	2.5 %	90 %
Municipal Plan 1 (plan open to new employers)	7.0 %	8.5 %	7.4 %	2.0 %	2.0 %	90 %
Municipal Plan 2 (plan open to new employers)	9.15 %	10.65 %	9.55 %	2.5 %	2.0 %	90 %
Municipal Plan 3 (plan closed to new employers 6/95)	13.15 %	14.65 %	9.55 %	3.0 %	2.5 %	90 %
Municipal Plan 4 (plan closed to new employers 6/00)	15.65 %	17.15 %	12.05 %	3.0 %	2.5 %	90 %
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.90%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
State Police and Adult Correctional Officer Plan 1	7.60%	9.10%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, NMCAP reported a liability of \$51,609 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 7. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Therefore, the employer’s portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016.

NMCAP’s proportion of the net pension liability was based on a projection of NMCAP’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, NMCAP’s proportion was .00323%, which was an increase of 0.00323% from its proportion measured as of June 30, 2015 as the entity was not included in the 2015 actuarial report.

For PERA Fund Municipal General Division, at June 30, 2016, NMCAP reported a liability of \$51,609 for its proportionate share of the net pension liability. At June 30, 2016, NMCAP’s proportion was 0.00323 percent, which was an increase of 0.00323 percent from its proportion measured as of June 30, 2015 as the entity was not included in the 2015 actuarial report.

For the year ended June 30, 2017, NMCAP recognized PERA Fund Municipal General Division pension expense of \$7,761. At June 30, 2017, NMCAP reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Changes of assumptions	\$ 3,026	\$ 9
Changes in proportion	144	990
Difference between expected and actual experience	2,579	504
Net difference between projected and actual earnings on pension plan investments	9,496	-
NM CAP's contributions subsequent to the measurement date	9,025	-
Total	\$ 24,270	\$ 1,503

\$9,025 reported as deferred outflows of resources related to pensions resulting from NMCAP’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 2,783
2019	2,783
2020	5,768
2021	2,408
Thereafter	-
Total	\$ 13,742

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 7. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

PERA FUND

PERA	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay, Open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair Value
Actuarial Assumptions:	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll Growth	2.75% for first 10 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 10 years
	2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2015 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2016. These assumptions were adopted by the Board use in the June 30, 2015 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

STATE OF NEW MEXICO
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 Notes to Financial Statements
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NOTE 7. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.5	1.79
Credit Oriented Fixed Income	15.0	5.77
Real Assets	<u>20.00</u>	7.35
Total	100.00%	

Discount rate. A single discount rate of 7.48% was used to measure the total pension liability as of June 30, 2016. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.48%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

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, the tables present NMCAP's net pension liability in each 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 (6.48%) or one percentage point higher (8.48%) than the single discount rate.

PERA Fund Municipal General Division

	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
NMCAP Entity's proportionate share of the net pension liability	\$ 76,945	\$ 51,609	\$ 30,595

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

Payables to the pension plan. NMCAP remits the legally required employer and employee contributions on a monthly basis to PERA. The 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, 2017, NMCAP did not owe any contributions to PERA for the contributions withheld in the month of June 2017.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
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June 30, 2017

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.

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.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 8. POST-EMPLOYMENT BENEFITS: STATE RETIREE HEALTH CARE PLAN (continued)

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. NMCAP's contribution to the RHCA for the years ended June 30, 2017 and 2016 were \$1,893 and \$636, respectively. This is the second year of existence of NMCAP thus there are no contributions prior to 2016 to the RHCA.

NOTE 9. PRIOR PERIOD ADJUSTMENTS

NMCAP was included in 2016 as participant in the PERA pension plan and it was the first year that its employees participated and were included in the City of Deming's proportionate share. Therefore, the net position of NMCAP has been restated to record the beginning net pension liability and to properly account for the related pension items in the amount of \$27,461.

NOTE 10. CONTINGENT LIABILITIES

NMCAP is party to various claims and lawsuits arising in the normal course of business. NMCAP is insured through the New Mexico City Insurance Authority. In the opinion of management, the outcome of these matters will not have a material effect on the financial position of NMCAP.

NOTE 11. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2017, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is December 11, 2017 which is the date on which the financial statements were issued. No issues were noted for disclosure at December 11, 2017.

NOTE 12. CONCENTRATIONS

NMCAP depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, NMCAP is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State Appropriations. The entire operations are based upon the joint powers agreement described in Note 1 and if the funding of this agreement is affected in a negative manner, or the agreement is terminated by any oversight body, the entity may cease to exist due to the revenue concentration.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Notes to Financial Statements
June 30, 2017

NOTE 13. SUBSEQUENT PRONOUNCEMENTS

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. NMCAP expects this pronouncement to have a material effect on the financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The standard will be implemented during the fiscal year ended June 30, 2020. NMCAP is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85, *Omnibus 2017*, was issued. Effective Date: The provisions of this Statement are effective for periods beginning after June 15, 2017. NMCAP is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. NMCAP does not expect this pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87, *Leases*, was issued. Effective Date: For reporting periods beginning after December 15, 2019. NMCAP does not expect this pronouncement to have a material effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

State of New Mexico
 New Mexico Central Arizona Project
 Schedule of Proportionate Share of the Net Pension Liability
 Public Employees Retirement Association of NM (PERA) Pension Plan
 Last 10 Fiscal Years*

Schedule I

	2017 Measurement Date (As of and for the Year Ended June 30, 2016)	2016 Measurement Date (As of and for the Year Ended June 30, 2015)
New Mexico Central Arizona Project proportion of the net pension liability (asset)	0.00323%	0.00000%
New Mexico Central Arizona Project proportionate share of the net pension liability (asset)	\$ 51,609	\$ -
New Mexico Central Arizona Project covered-employee payroll	27,692	-
New Mexico Central Arizona Project proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	186%	0%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	0.00%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, New Mexico Central Arizona Project will present information for those years for which information is available.

See independent auditors' report.
 See notes to required supplementary information.

State of New Mexico
 New Mexico Central Arizona Project
 Schedule of Contributions
 Public Employees Retirement Association of NM (PERA) Pension Plan
 Last 10 Fiscal Years*

Schedule II

	As of and for the Year Ended June 30, 2017	As of and for the Year Ended June 30, 2016
Contractually required contribution	\$ 9,025	\$ 2,645
Contributions in relation to the contractually required contribution	9,025	2,645
Contribution deficiency (excess)	\$ -	\$ -
New Mexico Central Arizona Project covered-employee payroll	94,500	27,692
Contribution as a percentage of covered-employee payroll	9.55%	9.55%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, New Mexico Central Arizona Project will present information for those years for which information is available.

See independent auditors' report.
 See notes to required supplementary information.

State of New Mexico
New Mexico Central Arizona Project
Notes to Required Supplementary Information
Public Employees Retirement Association of NM (PERA) Pension Plan
Last 10 Fiscal Years*

PERA

Changes of benefit terms: The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>

Assumptions: The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2016 report is available at <http://www.nmpera.org/>

See independent auditors' report.
See notes to required supplementary information.

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
 New Mexico Central Arizona Project
 Schedule of Deposits
 June 30, 2017

Schedule III

Bank Account Type/ Name	First Savings Bank
Deposits:	
Checking - Fiscal Agent	\$ 20,517
Total Deposits	20,517
Reconciling items	13,597
<i>Reconciled balance June 30, 2017</i>	\$ 34,114
Reconciliation to financial statements:	
Cash:	
Government-wide statement of net position - Exhibit A-1	\$ 34,114

See independent auditors' report.

COMPLIANCE SECTION

**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 AUDITORS' REPORT

Board of Directors and Management
New Mexico Central Arizona Project
Wayne A. Johnson
New Mexico State Auditor
Lordsburg, New Mexico

We have audited, in accordance with the 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 (NMCAP), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the NMCAP's basic financial statements, and have issued our report thereon dated December 11, 2017.

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 on the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NMCAP'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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of Section 12-6-5 NMSA 1978 findings as item NM 2016-002.

NMCAP's Responses 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 NMCAP'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 NMCAP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, New Mexico
December 11, 2017

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Schedule of Findings and Responses
For the Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | None |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Noted |
| c. Noncompliance material to the financial statements noted? | None noted |

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Schedule of Findings and Responses
For the Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FINDINGS IN ACCORDANCE WITH SECTION 12-6-5 NMSA 1978

NM 2016-002 Travel and Per Diem (Other Noncompliance)

Condition: During our testwork over travel and per diem, we noted 1 out of 10 vouchers where an employee was reimbursed \$20 more for travel expenses than should have been reimbursed.

Management has made progress towards implementing the corrective action plan, as this was a clerical error and oversight during the paperwork processing.

Criteria: The NM CAP Entity is required to comply with the Per Diem and Mileage Act, Sections 10-8-1 through 10-8-4, for all per diem and reimbursement rates.

Effect: The NM CAP Entity has disbursed monies using public funds that are not in compliance with Per Diem and Mileage Act.

Cause: During processing of the voucher, there was a clerical error, where the NM CAP Entity incorrectly reimbursed the employee in the amount of \$87.89 instead of \$67.89 per the supporting documentation.

Auditors' Recommendation: We recommend the NM CAP Entity closely review supporting travel documents and ensure all reimbursements agree to the amounts that have been paid out by employees for travel costs.

Agency Response: The Accountant misread the amount to be \$20.00 more than actual. The City of Deming (as second fiscal agent) has in place (effective as of the submission of this report (December 2017)) controls to review amounts prior to disbursing payment by the Finance Department staff (Accountant and Finance Director/Treasurer) for the City of Deming (second fiscal agent). This instance was an oversight by the Accountant where the total amount including taxes and fees was misread. In the future, the entire document received will be reviewed and calculated (effective as of the submission of this report (December 2017)) to ensure all amounts are accurate by both the staff calculating the per diem and the Accounts Payable clerk preparing the disbursement check.

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Schedule of Findings and Responses
For the Year Ended June 30, 2017

SECTION IV. PRIOR YEAR AUDIT FINDINGS

2016-001 Purchase Order Documentation (Significant Deficiency) – Resolved

2016-002 Over Reimbursement of Per Diem (Finding that does not rise to the level of significant deficiency) – Repeated

2016-003 Open Meetings Act (Significant Deficiency) - Resolved

2016-004 – Controls Over Payroll (Findings that do not rise to the level of significant deficiency) - Resolved

STATE OF NEW MEXICO
New Mexico Central Arizona Project
Other Disclosures
June 30, 2017

OTHER DISCLOSURES

Exit Conference

An exit conference was held on December 11, 2017. In attendance were the following:

Representing New Mexico CAP Entity:

Darr Shannon – Board Chair
Aaron Sera – Board Member
Laura Holguin – Second Fiscal Agent Finance Director/Treasurer
Patty Ciccotelli – Second Fiscal Agent Accountant

Representing Cordova CPAs LLC:

Robert Cordova, CPA – Principal
Robert Gonzales, CPA – Principal

Auditor Prepared Financial Statements

Cordova CPAs LLC prepared the GAAP-basis financial statements and footnotes of New Mexico CAP Entity from the original books and records asserted by management. The responsibility for the financial statements remains with New Mexico CAP Entity.