



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND
SANITATION DISTRICT**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

For the Year Ended June 30, 2016

**ELDORADO AREA WATER AND SANITATION DISTRICT
TABLE OF CONTENTS
For The Year Ended June 30, 2016**

	Page
INTRODUCTORY SECTION	
Table of Contents	i
Official Roster	ii
FINANCIAL SECTION	
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-9
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	13-30
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Liability of PERA Fund Division	31
Schedule of Contributions PERA Plan PERA Fund Division	32
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenses, and Changes in Net Position Budget (Non-GAAP Budgetary Basis) and Actual	33
OTHER SUPPLEMENTARY INFORMATION (AUDITED)	
Schedule of Deposit and Investment Accounts	34
OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)	
Schedule of Vendor Information for Purchases Exceeding \$60,000 (excluding GRT)	35
COMPLIANCE SECTION	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36-37
Schedule of Findings and Responses	38-42
EXIT CONFERENCE	43

**ELDORADO AREA WATER AND SANITATION DISTRICT
OFFICIAL ROSTER
As of June 30, 2016**

Directors and Officers

Title	Name	Term Ends
President and Director	James Jenkins	January, 2017
Vice President	Vacant	
Secretary	Vacant	
Treasurer	Elizabeth Roghair	No Specific Term
Director	David Burling	January, 2017
Director	John Calzada	January, 2019
Director	Carolyn M. Horne	January, 2019

Administrative Officials

Title	Name
General Manager	David Chakroff
Administrative Assistant	Anna Mondragon-Metzger



INDEPENDENT AUDITOR’S REPORT

Governing Board of
Eldorado Area Water and Sanitation District
and
Mr. Tim Keller, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Eldorado Area Water and Sanitation District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the District’s basic financial statements as listed in the table of contents. We have also audited the budgetary comparison presented as supplementary information, as defined by the *Government Accounting Standards Board*, in the accompanying individual fund financial statements as of and for the year ended June 30, 2016, 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.

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 business-type activities of the District, as of June 30, 2016, and the respective changes in financial position and cash flows thereof, for the year ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements above present fairly, in all material respects, the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America require that the Schedules related to PERA and Net Pension Liabilities, listed as "*Required Supplementary Information*" in the table of contents, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the District's financial statements and the budgetary comparison. The other schedules listed as "*supplementary and other supplementary information*" in the table of contents, required by 2.2.2 NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedule listed as "*other supplementary information (audited)*" in the table of contents, required by 2.2.2 NMAC, are the responsibility of management and were 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 additional schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other schedule listed as "*other supplementary information (unaudited)*" in the table of contents, have 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 7, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance

and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
December 7, 2016

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2016

Introduction

Management of the Eldorado Area Water and Sanitation District (the "District") offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

Financial Highlights

Key events for the fiscal year 2016 are:

- The assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$17,937,414 (total net position). The components of net position include restricted net position of \$1,802,763, unrestricted net position of \$826,948, and net investment in capital assets of \$15,307,765.
- The District's total reported net position increased by \$2,067,119 compared to the prior year increase in net position of \$1,494,548.
- As of June 30, 2016, the District had current assets, noncurrent assets, and deferred outflows of resources totaling \$1,133,641, \$25,996,363, and \$14,537, respectively. Capital assets, net of accumulated depreciation, totaled \$24,198,776. Current liabilities include \$44,900 in customer deposits, \$57,668 in accounts payable, \$18,887 in interest payable, \$11,821 in accrued payroll expenses, \$8,560 in compensated absences, and \$743,726 in loans payable. Noncurrent liabilities include \$7,061,710 in loans payable, \$1,066,688 in unamortized bond premium, and \$186,584 in net pension liability. Deferred inflows of resources include \$6,583 related to the net pension liability.

Overview of the Financial Statements

The District is a special purpose government agency engaged only in business-type activities. Therefore, in accordance with GASB Statement No. 34, the District's financial statements are comprised of four components:

1. Independent Auditor's Report
2. Management's Discussion and Analysis (Required Supplementary Information)
3. Basic Financial Statements
4. Other Information, which includes certain required supplementary information, other supplementary information and other required NM State Auditor schedules

These financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private- sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the most recent Fiscal Year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2016**

timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., uncollected taxes and accounts payable).

The Statement of Cash Flows presents information on how the District's cash was used. It shows net cash used by or provided by operating activities, capital financing activities, noncapital financing activities and investing activities. It also reconciles beginning cash balances to ending cash balances.

The Notes to the Financial Statements provide additional information that explains the numbers provided in the financial statements.

The Budgetary Comparison compares current period activity on a budgetary basis of accounting to the legally adopted budget. In general, the amounts presented in the budgetary comparison statement will agree with amounts presented in the statement of revenues, expenses and changes in fund net position. This is because the District prepares its budget on the accrual basis of accounting with the exception of depreciation and principal payment on debt and, accordingly, amounts presented in the budgetary comparison statement are on the non- GAAP budgetary basis of accounting. The budgetary comparison statement has been presented as supplementary information to demonstrate compliance with state budget law.

Government-Wide Financial Analysis—Broad Overview of Finance

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, a positive net position balance (assets and deferred outflows of resources exceeding liabilities and deferred inflows of resources) of \$17,937,414 is reported as of the year ended, June 30, 2016, compared to \$15,870,295 reported as of June 30, 2015. The largest component of the net position is the net investment in capital assets of \$15,307,765, which comprises 85% of the total net position.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2016**

The following is a summary of the Statement of Net Position:

Overview of the Statement of Net Position

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Assets:			
Current assets	\$ 1,133,641	822,844	310,797
Capital assets, net	24,198,776	23,355,998	842,778
Other assets	1,797,587	2,260,612	(463,025)
Deferred outflows of resources	14,537	14,505	32
Total assets and deferred inflows of resources	\$ 27,144,541	26,453,959	690,582
Liabilities:			
Current liabilities	\$ 885,562	1,372,097	(486,535)
Noncurrent liabilities	8,314,982	9,154,703	(839,721)
Total liabilities:	9,200,544	10,526,800	(1,326,256)
Deferred inflows of resources	6,583	56,865	(50,282)
Net Position:			
Net investment in capital assets	15,307,765	13,629,249	1,678,516
Restricted	1,802,763	1,710,211	92,552
Unrestricted	826,886	530,835	296,051
Total net position	17,937,414	15,870,295	2,067,119
Total liabilities, deferred inflows, and net position \$	27,144,541	26,453,960	690,581

The net position of the Board's business-type activities increased \$2,067,119 during the year, from \$15,870,295 at June 30, 2015 to \$17,937,414 at June 30, 2016, indicating an improvement in the financial condition of the Board. Net investment in capital assets increased approximately \$1.7 million due to the retirement of related debt and amortization of the bond premiums; in addition, the capital asset additions exceeded the current year depreciation expense. Restricted net position remained relatively consistent with prior year. Unrestricted net position increased by \$296,051.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2016**

The following table shows the revenues and expenses for the District for the current and prior fiscal year:

Overview of the Statement of Revenues, Expenses, and Changes In Net Position

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Revenues:			
Water sales	\$ 2,617,920	2,292,544	325,376
Ad valorem tax	1,147,283	877,479	269,804
Capital grants	940,848	899,434	41,414
Interest income	8,869	6,303	2,566
Other revenue	975	-	975
Total Revenues	<u>4,715,895</u>	<u>4,075,760</u>	<u>640,135</u>
Expenses:			
Operating expenses	2,402,632	2,296,486	106,146
Bond interest expense	246,144	284,726	(38,582)
Total Expenses	<u>2,648,776</u>	<u>2,581,212</u>	<u>67,564</u>
Increase in net position	2,067,119	1,494,548	572,571
Total net position, beginning of year	15,870,295	14,571,658	1,298,637
Restatement	-	(195,911)	195,911
Total net position - end of year	<u>\$ 17,937,414</u>	<u>15,870,295</u>	<u>2,067,119</u>

Total business-type activities generated revenues of \$4,715,895 while expenses totaled \$2,648,776 for the year ended June 30, 2016, resulting in an increase in net position of \$2,067,119. Comparatively, revenues were \$4,075,760 and expenses totaled \$2,581,212 for the year ended June 30, 2015, resulting in an increase in net position of \$1,494,548.

Key elements of the increase in net position of compared to prior year include:

- Increase in water sales of \$325,376 compared to prior year due to a rate increase effective January 2016.
- Increase in ad valorem tax revenues of \$269,804 due to the board approved one mill levy increase effective for FY16.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2016**

Fiscal Year 2016 Budgetary Highlights

Total final budgeted revenues for the year ended June 30, 2016 decreased over prior year in the amount of \$506,096 due mainly to the decrease in the capital grant. Total final budgeted expenses for the year ended June 30, 2016 decreased from the prior year by \$1,164,816, due to a reduction in capital outlay expenses.

The following is a summary of the final budget as compared to actual activity at June 30, 2016. A detailed breakout of budget vs. actual revenue and expenses can be found in the supplementary section of this report.

	Final Budget	Actual	Favorable (Unfavorable)
Revenues	\$ 4,434,729	4,715,895	281,166
Expenses	5,127,103	4,354,803	(772,300)
Designated cash	692,374	-	(692,374)
	<u>\$ -</u>	<u>361,092</u>	<u>361,092</u>

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2016, totals \$24,198,776 (net of accumulated depreciation) compared to \$23,356,011. Major capital events during the fiscal year included the following:

- Replacement of 200 customer meters during the year, for a capitalized cost of \$164,303.
- Pressure zone optimization and pilot well development for Well 19 (Phases 1 and 2), for a capitalized cost of \$1,102,277.

Long-term Debt

At June 30, 2016 and 2015, Eldorado Area Water and Sanitation District had New Mexico Finance Authority (NMFA) loans outstanding of \$7,805,436. Of the outstanding balance, \$743,726 is considered to be a current obligation. No new debt was issued during fiscal year 2016. The District entered into a loan agreement for \$909,000, however no funds were drawn down. Additional information can be found in Note 14 of the financial statements.

The District made principal payments towards loans in the amount of \$717,190 for the year ended June 30, 2016. Interest expense and administrative fees related to the outstanding loans were paid in the amount of \$246,175. Additional information on Eldorado Area Water and Sanitation District's long-term debt can be found in note 6 of the financial statements.

Financial Outlook for Next Year

The District's approved budget for fiscal year 2017 totals \$5,631,686, which is an approximate 11.5% increase over FY16. Projected revenues include \$2,530,358 from water sales, interest and miscellaneous revenue, an approximate 11% increase over FY16. Projected property tax receipts are expected to be \$1,123,700, an approximate 6% decrease from FY16. Additional resources budgeted and available for expenditure include \$900,000 in loan proceeds for Well 19, \$168,337 of intergovernmental funding and \$909,292 from the District's Capital Reserve for capital improvement projects.

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2016

Requests for Information

This financial report is designed to provide a general overview of the Eldorado Area Water and Sanitation District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Eldorado Area Water and Sanitation District, 2 North Chamisa Drive, Suite A, Santa Fe, NM 87508.

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
As of June 30, 2016

	Business-Type Activities
Current assets	
Cash and cash equivalents	\$ 157,171
Investments	253,807
Ad valorem taxes receivable	40,482
Customer receivables, net	560,311
Grants receivable	90,517
Prepaid expenses	<u>31,353</u>
Total current assets	<u>1,133,641</u>
Non-current assets	
Restricted cash	
Meter deposits	44,900
Debt service	581,552
Restricted investments	
Debt service	149,798
Cost of utility acquisition improvements	886,462
Water rights acquisition	134,875
Capital assets, net of accumulated depreciation	<u>24,198,776</u>
Total non-current assets	<u>25,996,363</u>
Total assets	<u>27,130,004</u>
Deferred outflows of resources	
Pension deferral	<u>14,537</u>
Total deferred outflows of resources	<u>14,537</u>
Total assets and deferred outflows of resources	<u>\$ 27,144,541</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 57,668
Accrued payroll liabilities	11,821
Accrued interest	18,887
Compensated absences	8,560
Customer deposits	44,900
Loans payable	<u>743,726</u>
Total current liabilities	<u>885,562</u>
Non-current liabilities	
Loans payable	7,061,710
Bond premium, net	1,066,688
Net pension liability	<u>186,584</u>
Total non-current liabilities	<u>8,314,982</u>
Total liabilities	<u>9,200,544</u>
Deferred inflows of resources	
Pension deferral	<u>6,583</u>
Total deferred inflows of resources	<u>6,583</u>
Total liabilities and deferred inflows of resources	<u>9,207,127</u>
NET POSITION	
Net investment in capital assets	15,307,765
Restricted for:	
Cost of utility acquisition and improvements	936,538
Water rights acquisition	134,875
Debt service	731,350
Unrestricted	<u>826,886</u>
Total net position	<u>17,937,414</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 27,144,541</u>

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET POSITION
For The Year Ended June 30, 2016**

	Business-Type Activities
OPERATING REVENUES	
Water sales	\$ 2,617,920
Total operating revenues	2,617,920
OPERATING EXPENSES	
Contractual services	1,433,333
Depreciation	521,994
Personnel services	188,437
Utilities	85,368
Facilities rent	75,744
General and administrative	75,362
Materials and maintenance	10,812
Supplies	5,181
Water conservation fee	4,134
Travel	2,267
Total operating expenses	2,402,632
Operating income (loss)	215,288
NON-OPERATING REVENUES (EXPENSES)	
Ad valorem tax	1,147,283
Interest income	8,869
Bond interest expense and amortization expense	(246,144)
Other revenue	975
Total non-operating revenues (expenses)	910,983
Income (loss) before capital grants	1,126,271
Capital grants	940,848
Change in net position	2,067,119
Net position, beginning of year	15,870,295
Net position, end of year	\$ 17,937,414

The accompanying notes are integral to these financial statements

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2016

	Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,371,185
Payments to employees	(100,347)
Payments to suppliers and contractors	(1,793,188)
<i>Net cash provided (used) by operating activities</i>	477,650
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Ad valorem taxes received	1,137,898
<i>Net cash provided (used) by noncapital financing activities</i>	1,137,898
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Other revenue	975
Purchase of capital assets	(1,364,759)
Proceeds from capital grants	387,259
Bond and loan principal payments	(717,190)
Bond interest payments and admin fees	(389,936)
<i>Net cash provided (used) by capital and related financing activities</i>	(2,083,651)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(931,609)
Proceeds from sale of investments	805,339
Interest income	8,869
<i>Net cash provided (used) by investing activities</i>	(117,401)
Net increase (decrease) in cash and cash equivalents	(585,504)
Balances-beginning of year	1,369,127
Balances-end of year	\$ 783,623
Cash	
Cash and cash equivalents	\$ 157,171
Meter deposits	44,900
Debt service	581,552
Total cash	\$ 783,623
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:	
Operating income/(loss)	\$ 215,288
Adjustments	
Depreciation expense	521,994
Pension expense	(8,830)
Change in assets and liabilities:	
(Increase) decrease in customer receivables	(246,735)
(Increase) decrease prepaid expenses	5,827
Increase (decrease) in accounts payable	(3,745)
Increase (decrease) in accrued expenses	(6,761)
Increase (decrease) in compensated absences	612
<i>Net cash provided (used) by operating activities</i>	\$ 477,650
Supplementary Non-Cash Disclosures	
Reduction in bond amortization premium	(137,435)
Change in net pension liability	41,484
Change in deferred inflows	(50,282)
Change in deferred outflows	32

The accompanying notes are integral to these financial statements

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

NOTE 1—NATURE OF BUSINESS AND REPORTING ENTITY

The Eldorado Area Water and Sanitation District (the District) was organized pursuant to Sections 73-21-1 through 73-21-55, NMSA, 1978 Comp, and by order of the New Mexico First Judicial District Court in Santa Fe County, New Mexico on July 3, 1997. The District is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation. The District was created for the statutory purpose of providing water, sewer and other services to residents within the District's boundary. An elected five-member Board of Directors governs the operations of the District.

On January 1, 2003 and March 28, 2003, the District authorized resolutions for the issuance of Utility Acquisition and Improvement General Obligation Bonds to obtain funding for the acquisition of the utility and for necessary utility improvements. Utility Acquisition and Improvement General Obligation Bonds, in the amount of \$7,900,000 were issued on January 1, 2004.

On February 10, 2004, the District filed, in the First Judicial District Court, a condemnation action against El Dorado Utilities, Inc. (EUI), seeking to acquire the water utility through exercise of the District's powers of eminent domain. Initially, the District asked the Court to permit immediate possession by the District. The case was heard in May 2004 but the judge denied immediate possession. The judge, however, set up a jury trial for September, 2004, to resolve the valuation of the water system.

On September 22, 2004, the jury empaneled to determine just compensation in the condemnation action determined that the fair market value of the utility was \$11,047,128, which was 75% greater than the actual value for which the utility was offered for sale on the open market. The District's board was informed that abandonment of the condemnation action would mean that the District would not acquire the utility and could result in a requirement that the District pay the utility owner's reasonable costs and attorney fees incurred in the condemnation action, without benefit to the District or the District's ratepayers.

On September 30, 2004, the District's board resolved to continue its efforts to acquire the utility at a reasonable purchase price, which would not, in any event, be greater than the amount of the jury verdict plus any reasonable interest thereon. The District's attorneys were instructed to take such actions as are legally reasonable and appropriate to seek a reversal or downward modification of the jury determination, including but not limited to, an appeal of the District court decision. The District's officers were instructed to seek additional funding in such amounts as may be necessary to pay the purchase price of the utility. The District's officers were further instructed to advise the owner of the utility of the District's intentions and to seek, if possible, a negotiated settlement of all issues so that the District may acquire the utility in the most expeditious manner possible, at a reasonable price.

On December 1, 2004, the District took possession of the water utility. Between that date and May 24, 2005, the District worked on obtaining additional funding to purchase the utility. Water Utility Revenue Bonds in the amount of \$5,800,000 were issued and on May 27, 2005, the District completed the acquisition of the water utility at an adjudicated price of \$11,216,996.

Financial Reporting Entity

The District is a special-purpose government created pursuant to statute and is comprised of an elected Board of Directors. The officers of the District are elected for four-year terms on the second Tuesday in January of each odd numbered year at staggered two-year intervals. The District is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation and these financial statements include all funds and activities over which the District officers have oversight responsibility.

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

The officers of the District have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. There are no component units.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted (US GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing US GAAP for state and local government accounting and financial reporting principles.

A—Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of Presentation—Fund Financial Statements

The accounts of the District are organized on the basis of one fund that is considered a separate accounting entity. The District's activities are reported as business-type and as a result, are comprised of a single proprietary fund financial statement. The operations of the fund are accounted for with self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. Government resources are allocated to and accounted for in the fund based upon the purpose for which spending activities are controlled. In this report, the fund is presented with the titles of Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows.

Enterprise Fund

The enterprise fund (proprietary fund) is used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Property taxes are recognized as revenues in the year for which they are levied.

Operating and Non-Operating Items

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are user fees generated from water and wastewater services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B—Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures for amounts associated with assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Significant estimates for the District include management's estimate of the allowance for uncollectible accounts for water sales and depreciation on assets over their estimated useful lives.

C—Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, Net Position, Revenues and Expenses

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Restricted Cash Equivalents and Investments

Restricted assets consist of those funds expendable for the operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used. The District has restricted cash and investments. Restricted cash are all identified in the Schedule of Deposit and Investment Accounts as listed in the table of contents.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items consist of directors' and officers' liability and property insurance, and prepaid rent totaling \$31,353, as of June 30, 2016.

Capital Assets

Capital assets are tangible assets that have initial useful lives that extend beyond a single reporting period. Capital assets are reported at historical cost or estimated fair value, if donated. Capital assets are depreciated using zero salvage value and the straight-line method over their estimated useful lives. Before the 2005 legislative session, only items costing more than \$1,000 were capitalized.

Effective June 19, 2005, House Bill 1074 amended Section 12-6-10, NMSA 1978, to increase the capitalization threshold to items costing more than \$5,000.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

The major classifications of capital assets and their related depreciable lives are as follows:

<u>Asset Type</u>	<u>Years</u>
Land	Perpetuity
Water utility- original	30
Water utility- improvements	7-30
Water utility- Well 17 and 18	30
Vehicles	5
Furniture and fixtures	15
Equipment and machinery	3-15

The District's water system is depreciated on a straight-line basis over its useful life. Revenue and General Obligation bonds for the acquisition of the water utility system were refunded in fiscal year 2013 with loans from the New Mexico Finance Authority (PP-2900 and PP-2901).

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation, compensatory hours, and sick pay benefits. Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and overtime. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the District and its employees is accrued as employees earn the right to the benefits. Compensated absences that related to future services or that are contingent on a special event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or when such events take place. Compensated absences liability includes annual leave which has been accrued but not taken.

The maximum accrued annual leave may be carried forward into the beginning of the next calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to the aforementioned maximums at their current hourly rate. See the "changes in long term debt" note in this report for the accrued compensated absences payable outstanding as of June 30, 2016.

Ad Valorem Taxes

The Board of Directors has the power and authority to levy and collect ad valorem taxes on and against all taxable property within the District. Each year, the Board of Directors determines the amount of money necessary to be raised by taxation, taking into consideration other sources of revenue of the District, and submits a budget request to the Department of Finance and Administration, Local Government Division (DFA-LGD) sufficient to meet its operating, debt service, construction and other costs. The DFA-LGD utilizes property valuations obtained from the county assessor's office to set the mil levy. The results are provided to the county treasurer who presents all county-wide mil levies to the Board of County Commissioners for approval by October 1. The Board of County Commissioners levies the tax upon the assessed valuation of all taxable property within the District. Taxes levied are due one-half on November 10 and one-half on April 10. It is the duty of the Board of County Commissioners to levy taxes within the District. The County Treasurer collects the taxes and remits such taxes to the District. All taxes levied, until paid, constitute a perpetual lien on and against the property taxed.

Bond Issuance Costs

The District immediately expends bond issuance costs in the year in which they are incurred.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

Deferred Outflows of Resources

In addition to assets, the statement of net 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 and so will not be recognized as an expense or expenditure until then. The District has deferred outflows of resources during fiscal year as follows:

<u>Deferred Outflows of Resources</u>	
	<u>2016</u>
Pension deferrals	\$ <u>14,537</u>
Total deferred outflows of resources	\$ <u><u>14,537</u></u>

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

<u>Deferred Inflows of Resources</u>	
	<u>2016</u>
Pension deferrals	\$ <u>6,583</u>
Total deferred inflows of resources	\$ <u><u>6,583</u></u>

Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by corresponding deferred inflows of resources. The District has one type of deferred inflows, which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the deferred inflows, net difference between expected and actual earnings and change in assumptions, are reported on the Statement of Net Position. Deferred inflow amounts related to the net difference between expected and actual investment earnings are amortized into pension expense over a five-year period.

When both restricted and unrestricted resources are available for use, it is the District's policy to use applicable restricted resources first, then unrestricted resources as they are needed.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They include all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. Non-operating revenues include ad valorem taxes (property), miscellaneous income and interest income.

Capital Grants

Capital grant revenues received from NMED and the NMFA Water Trust Board are recognized on a reimbursement basis. Reimbursements are received after the District incurs and submits qualifying expenses.

Net Position Classification

Net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflow of resources. Net investment in capital assets – net of related debt, are capital assets, less

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

accumulated depreciation and any debt related to the acquisition or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by external restrictions by other governments, creditors or grantors.

D—Budgets and Budgetary Accounting

Water and Sanitation Districts follow procedures that are promulgated by the Department of Finance and Administration, Local Government Division (DFA-LGD). Those procedures are as follows:

1. In March and April, the Treasurer, assisted by the District Financial Service Provider, develops a proposed initial operating budget for the upcoming fiscal year. The proposed initial operating budget is presented to the Board for review and update in April. Changes to the proposed budget are made accordingly.
2. In the first Board meeting in May, the Board holds a public meeting to present the proposed initial operating budget to the communities served and to hear public comment regarding the proposed budget.
3. Any changes directed by the Board are made to the proposed initial budget, which the Treasurer then submits to the Board for approval at a second Board meeting in May. The operating budget includes proposed expenditures and the means of financing them.
4. After the Board approves the proposed initial budget, it is then submitted to the DFA-LGD for review and certification in time to meet the DFA-LGD deadline of June 1.
5. DFA-LGD returns the approved initial budget on the first Monday in July. Fiscal year-end cash balances and any final budget adjustments are then posted to the initial budget to produce the District's final budget, which must be submitted to DFA-LGD by July 30
6. Upon certification by the DFA-LGD, the budget becomes a legally binding document and budgetary control does not allow total expenditures in any fund to exceed the amount budgeted.
7. The Board is authorized to make budget revisions with the DFA-LGD's approval.
8. Formal budgetary integration is employed as a management control device during the year.

Budgets for revenues and most expenses are adopted on a non-GAAP basis of cash receipts and disbursements due to the District and do not include depreciation expense or amortized issuance costs related to its outstanding debt and budgeting principal payments on its outstanding bonds; consequently, certain revenues and the related assets (receivables) are recognized when earned rather than when received and certain expenses are recognized when the obligation is incurred rather than when paid. Budgetary comparisons in this report are presented on the non-GAAP budgetary basis.

The budgetary information presented in these financial statements has been properly amended by the District's board in accordance with the above procedures. These amendments resulted in no changes to the excess (deficiency) of revenues and sources over (under) expenses and uses for the current year.

E—Deposits And Investments

State statutes authorize the investment of District funds in various financial instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

United States Government obligations. The District is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2016.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case, shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

All of the District's accounts at an insured depository institution, including noninterest bearing accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

F—Evaluation of Subsequent Events

Subsequent events are events or transactions that occur after the statement of net position date but before the financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net position but arose after the statement of net position date and before financial statements are available to be issued. The organization has evaluated subsequent events through December 7, 2016, which is the date the financial statements were available to be issued. See Note 14 for subsequent events.

NOTE 3—DEPOSITS AND INVESTMENTS

Custodial Credit Risk—Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit be collateralized by the depository thrift or banking institution. At present, state statutes require that a minimum of fifty percent of uninsured balances on deposit with any one institution must be collateralized, with higher requirements up to 100% for financially troubled institutions.

The District's bank balances were exposed to custodial credit risk as shown in the table below. However, all of the bank balances exposed to custodial risk were collateralized by securities not in the District's name. None of the District's deposits were uninsured and uncollateralized at June 30, 2016.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

Bank accounts were collateralized as follows:

		First National Bank of Santa Fe
Amount of deposits	\$	308,762
FDIC Coverage		(250,000)
Total uninsured public funds		<u>58,762</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name		<u>58,762</u>
Uninsured and uncollateralized	\$	<u><u>-</u></u>
Collateral requirement (50% of uninsured funds)		29,381
Pledged Collateral		<u>1,046,039</u>
Over (Under) collateralized	\$	<u><u>1,016,658</u></u>

Investments

Credit Risk

As of June 30, 2016, the District's investment in the State Treasurer Local Government Investment Pool was rated as AAAM by Standard & Poor's.

The New Mexico Local Government Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) through 6-10-10(P) and Sections 6-10-10.1(A) and (E), NMSA 1978. The LGIP's investments are monitored by the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1(F), NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. Per review of GASB Statement No. 72, the State Treasurer Local Government Investment Pool is exempt from GASB 72, and should continue to be measured and disclosed in accordance with existing literature.

Concentration of Credit Risk—Investments

For an investment, concentration of credit risk is when any one issuer is 5% or more of the investment portfolio of the District. The investments in U.S. Treasury Money Market Mutual Funds represent 28% of the investment portfolio. The investments in LGIP represent 72% of the investment portfolio.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

<u>Investment Type</u>	<u>Risk Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
State Treasurer:			
Local Government Investment Pool			
Property Tax Revenue- G.O. Bonds	} AAAm	\$ 149,798	} [44] day WAM (R) [77] day WAM (F)
Utility Acquisition and Improvement		886,462	
Operating Reserve		298,707	
Restricted LGIP Water Rights		134,875	
Total LGIP		<u>1,469,842</u>	
U.S. Treasury MM Mutual Fund**	AA+	<u>581,552</u>	<90 days
Total investments		<u>\$ 2,051,394</u>	

**These U.S. Treasury MM Mutual Fund amounts are classified as restricted cash equivalents on the statement of net position due to their weighted average maturity of less than 90 days, but for disclosure purposes the amounts are considered investments.

Meter deposits included in the LGIP operating reserve are included in the Statement of Net Position as restricted cash, but for disclosure purposes the amounts are considered investments.

Interest Rate Risk—Investments

The District does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates. The District follows state law with investment activities.

The following schedule identifies the pledged collateral details related to First National Bank of Santa Fe:

<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>Cusip Number</u>	<u>Fair Market Value June 30, 2016</u>	<u>Name and Location of Safekeeper</u>
Lufkin Tex	8/15/2016	549798SD9	\$ 356,683	First National Bank of Denver
Alamogordo NM				
Muni Sch D	8/1/2020	011464HV9	307,117	First National Bank of Denver
Murphy Tex	2/15/2018	626752PD5	<u>382,239</u>	First National Bank of Denver
Total Pledged Collateral			<u>\$ 1,046,039</u>	

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, County, or political subdivision of the State of New Mexico.

NOTE 4—RECEIVABLES

Receivables are comprised of ad valorem taxes receivable, grants receivable and customer water billings. Capital grants receivable consist of expenses incurred for qualified capital expenses not yet reimbursed by the NMFA Water Trust Board or NMED. Receivable for water billings is water utility revenue billed and unbilled but earned which are not yet collected. Ad Valorem receivables represent current and delinquent taxes. The District considers the amount fully collectible and therefore has not estimated the amount of taxes levied that will be uncollectible.

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

Receivables and the allowance for doubtful accounts are as follows:

	Type		
	Ad Valorem	Customer Receivables	Grant Receivables
Receivables	\$ 40,482	639,750	90,517
Allowance for doubtful accounts	-	(79,439)	-
Net receivables	<u>\$ 40,482</u>	<u>560,311</u>	<u>90,517</u>

NOTE 5—CAPITAL ASSETS

Property and equipment are summarized as follows:

Business-Type Activities	Balance 2015	Additions	Reclass	Balance 2016
Capital assets not depreciated				
Land	\$ 463,000	-	-	463,000
Easements	465,435	-	-	465,435
Water rights	11,751,450	-	-	11,751,450
Water utility well 19	-	474,569	35,935	510,504
Construction in progress	261,749	-	(35,935)	225,814
Total capital assets not being depreciated	<u>12,941,634</u>	<u>474,569</u>	<u>-</u>	<u>13,416,203</u>
Capital assets being depreciated				
Water utility-Original	7,868,045	-	-	7,868,045
Water utility- improvements	3,233,713	866,664	-	4,100,377
Water utility well 2	606,872	23,526	-	630,398
Water utility well 17	856,880	-	-	856,880
Water utility well 18	1,204,123	-	-	1,204,123
Vehicles	147,994	-	-	147,994
Furniture, fixtures, & equipment	16,436	-	-	16,436
Equipment and machinery	119,861	-	-	119,861
Total capital assets being depreciated	<u>14,053,924</u>	<u>890,190</u>	<u>-</u>	<u>14,944,114</u>
Total Assets	<u>26,995,558</u>	<u>1,364,759</u>	<u>-</u>	<u>28,360,317</u>
Less accumulated depreciation				
Water utility-Original	(2,615,799)	(266,522)	-	(2,882,321)
Water utility- improvements	(503,138)	(130,117)	-	(633,255)
Water utility well 2	(2,937)	(20,229)	-	(23,166)
Water utility well 17	(208,994)	(28,562)	-	(237,556)
Water utility well 18	(152,735)	(40,138)	-	(192,873)
Vehicles	(64,921)	(26,983)	-	(91,904)
Furniture and fixtures	(9,048)	(1,096)	-	(10,144)
Equipment and machinery	(81,975)	(8,347)	-	(90,322)
Total accumulated depreciation	<u>(3,639,547)</u>	<u>(521,994)</u>	<u>-</u>	<u>(4,161,541)</u>
Capital assets, net	<u>\$ 23,356,011</u>	<u>842,765</u>	<u>-</u>	<u>24,198,776</u>

For the year ended June 30, 2016, depreciation expense was \$521,994, which is charged by water and wastewater functions as disclosed on the face of the financial statements.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

NOTE 6—CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2016 is as follows:

<u>Obligation</u>	<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Reduction</u>	<u>Balance</u> <u>2016</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
New Mexico Finance Authority Loans	\$ 1,287,626	-	(67,190)	1,220,436	68,726
NMFA Bond Refunding (Revenue Bond)	3,325,000	-	(230,000)	3,095,000	245,000
NMFA Bond Refunding (GO Bond)	3,910,000	-	(420,000)	3,490,000	430,000
Total	<u>\$ 8,522,626</u>	<u>-</u>	<u>(717,190)</u>	<u>7,805,436</u>	<u>743,726</u>
Accrued compensated absences	\$ 7,948	11,469	(10,857)	8,560	8,560
Net pension liability	\$ 145,100	43,824	(2,340)	186,584	-

The following are details of the debt to be serviced by the District.

<u>#</u>	<u>Description</u>	<u>Date of</u> <u>Issue</u>	<u>Due Date</u>	<u>Original</u> <u>Issue</u>	<u>Out-</u> <u>standing</u>	<u>Rate</u>
1	2469PP-Eldorado Loan 2	7/16/2010	6/1/2030	\$ 1,433,759	1,089,452	3.97%
2	Revenue bond	6/13/2013	6/1/2025	3,775,000	3,095,000	4.89%
3	GO bonds	6/13/2013	6/1/2023	4,700,000	3,490,000	4.70%
4	WTB Loans 246	3/1/2013	6/1/2033	18,750	16,007	0.25%
5	WTB 277	1/17/2014	6/1/2033	47,000	41,267	0.25%
6	WTB 278	1/17/2014	6/1/2033	36,000	31,609	0.25%
7	WTB 279	1/17/2014	6/1/2033	20,500	17,999	0.25%
8	WTB 297	3/20/2015	6/1/2034	25,667	24,102	0.25%
	Totals			<u>\$ 10,056,676</u>	<u>7,805,436</u>	

The annual principal and interest requirements on long-term debt outstanding as of June 30, 2016 are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 743,726	365,294	1,109,020
2018	780,445	329,108	1,109,553
2019	812,400	290,949	1,103,349
2020	849,541	258,469	1,108,010
2020-2025	4,096,842	688,537	4,785,379
2026-2030	497,252	70,838	568,090
2031-2035	25,230	5,392	30,622
	<u>\$ 7,805,436</u>	<u>2,008,587</u>	<u>9,814,023</u>

NMFA Debt Outstanding

Loan #1—On July 16, 2010, the District authorized and executed a loan agreement with the New Mexico Finance Authority (NMFA) for the purpose of financing water system improvements and infrastructure. Loan payments are due to NMFA monthly until June 1, 2030. The interest rate over the term of the loan is identified in the table above. The full faith and credit of the District is pledged for payment of principal and interest thereon and the loan will be payable from revenues of the water utility system.

Loans #2 and #3—On June 13, 2013, the District executed two loan refunding agreements with the New Mexico Finance Authority (NMFA) (NMFA Bond Refunding (Revenue Bond) and NMFA Bond

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

Refunding (GO Bond)) through resolution. The loans were issued at a total premium of \$1,478,149. The District used these new debt issuances to refund the 2005 Series Revenue Bonds and the 2004 Series General Obligation Bonds. The interest rates for the Revenue Bond and GO Bond are identified in the table above. The Revenue Bond is payable from the net revenues of the water utility system and the GO Bond is payable from general ad valorem taxes.

All but one of the District's loan agreements with NMFA contain a debt covenant of 1.3x. To meet the covenants, the District's pledged revenues for each debt instrument are required to be equal to or in excess of a contractually designated percentage of the aggregate annual debt service requirement. For the fiscal year ended June 30, 2016, the District is in compliance with these covenants.

The District also entered into a loan agreement on May 27, 2016 for an amount of \$909,000. The purpose of the loan is to provide funding for a new drinking water well and constructing facilities and appurtenances necessary for water production and interconnect a drinking water well with the water system.

The terms of the loan require debt service to be paid over a 22 year period. The rate of interest on the loan is 2%. These funds have not yet been received (drawn-down) by the District.

NOTE 7—POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN

The District is not a participant under the Retiree Health Care Act.

NOTE 8—OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosures of certain information concerning the fund as follows:

- A. The fund did not maintain a deficit net position as of June 30, 2016.
- B. The fund did not exceed approved budgetary authority for the year ended June 30, 2016.

NOTE 9—NET POSITION

At June 30, 2016, a portion of the net position was restricted by enabling legislation as follows:

- Costs of utility acquisition and improvements (new wells, pipes, pumps reservoirs, structures, etc.)
- Water rights acquisition

Also, at June 30, 2016, the District had restricted net position for debt reserve and debt service requirements.

Therefore, these amounts of net position were not available for general operating expenses.

All amounts are identified on the Statement of Net Position under the Net Position section of the financial statements.

NOTE 10—RISK MANAGEMENT AND LITIGATION

The District covers its insurance needs through various insurance policies. The coverage includes business and personal property, commercial general liability, owned, non-owned and hired automobiles, and directors' and officers' liability. The premiums paid on the policies during the year were \$45,412.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

If the District's losses exceed its premiums, there is no supplemental assessment; on the other hand, if the District's losses are less than its premiums, it does not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier. There are no pending or known threatened legal proceedings involving material matters to which the District is a party.

The District is insured through purchase of commercial insurance policies for general liability and purchases Worker's Compensation Insurance from the New Mexico Self Insurer's Fund. Worker's Compensation claims are handled by the New Mexico Self Insurer's Fund.

NOTE 11—PENSION PLAN—PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description: Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. PERA's Comprehensive Annual Financial Report is available on PERA's website at <http://www.pera.state.nm.us>.

Funding Policy: Plan members are required to contribute 10.65% of their gross salary. The District is required to contribute 9.55% of the gross covered salary. The contribution requirements of plan members and the District are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the years ending June 30, 2016 and 2015 were \$14,537 and \$14,505 respectively, which equals the amount of the required contributions for the year.

NOTE 12— PENSION PLAN AND POST EMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

Pensions. 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 New Mexico 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, on the economic resources measurement focus and accrual basis of accounting. 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.

General Information about the Pension Plan

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

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

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.

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, 2015 available at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_FY2015.pdf.

Contributions. The contribution requirements of defined benefit plan members and the District 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 and 32 of the PERA FY15 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_FY2015.pdf. The PERA coverage option that applies to the District is: Municipal General Division. Statutorily required contributions to the pension plan from the District were \$14,537 and employer paid member benefits that were “picked up” by the employer were \$0 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. 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: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. the District’s proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity’s percentage of that membership group’s total employer contributions for the fiscal year ended June 30, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Division; Municipal General Division, at June 30, 2016, the District reported a liability of \$186,584 for its proportionate share of the net pension liability. At June 30, 2015, the District’s proportion was 0.0183 percent, which changed from its proportion measured as of June 30, 2014, of 0.0186 percent, a decrease of 0.0003 percent.

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

For the year ended June 30, 2016, District recognized PERA Fund Division; Municipal General Division pension expense of \$14,537.

At June 30, 2016, the District reported PERA Fund Division; Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

<u>Municipal General Division</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	4,133
Changes of assumptions	-	73
Net difference between projected and actual earnings on pension plan investments	-	590
Change in proportion and differences between EAWSD contributions and proportionate share of contributions	-	1,787
EAWSD contributions subsequent to the measurement date	<u>14,537</u>	<u>-</u>
Total	<u>\$ 14,537</u>	<u>6,583</u>

\$14,537 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2017	\$ 5,495
2018	5,495
2019	5,495
2020	(9,902)
2021	-
Thereafter	<u>-</u>
	<u>\$ 6,583</u>

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-

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

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
Payroll growth	3.50% annual rate
Projected salary increases	3.50% to 14.25% annual rate
Includes inflation at	3.00% annual rate

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:

<u>All Funds - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	21.1%	5.00%
International Equity	24.8%	5.20%
Private Equity	7.0%	8.20%
Core and Global Fixed Income	26.1%	1.85%
Fixed Income Plus Sectors	5.0%	4.80%
Real Estate	5.0%	5.30%
Real Assets	7.0%	5.70%
Absolute Return	4.0%	4.15%
Total	<u>100.0%</u>	

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 District'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 the District's net pension liability in each Page 7 PERA Fund Division that the District participates in, under the current single rate assumption, as if it were

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

PERA Fund Division - Municipal General Division	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
EA WSD's proportionate share of the net pension liability	\$ 317,679	\$ 186,584	\$ 77,588

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY15 PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the pension plan. Employers should disclose the amount of payables to the Plan with a description of what gave rise to the payable per GASBS 68, paragraphs 122 and 124.

NOTE 13—OPERATING LEASES

The District entered into a lease agreement in February 2016 for the rental of administrative office space for the water utility operations office. The term of the lease is 10 years with monthly payments of \$4,500 per month for the first year, with annual increases in accordance with the increase in the All Urban Consumer Price Index. Either party may cancel the lease at any time upon 90 days' notice.

The District rents storage space from Eldorado Self-Storage (one unit at \$160 per month). The agreement is month-to-month.

There are no future minimum lease payments. Rent expense for the year ended June 30, 2016 was \$75,744.

NOTE 14 – COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

The District has certain commitments, contingencies and subsequent events as noted below:

Loans

The District entered into a loan agreement on May 27, 2016 for the amount of \$909,000. The purpose of the loan is to provide funding for a new drinking water well and constructing facilities and appurtenances necessary for water production and to interconnect a drinking water well with the water system. As of June 30, 2016, The District had not received the funds.

The terms of the loan require debt service to be paid over a 22 year period. The rate of interest on the loan is 2%.

The District entered into two additional loan agreements on September 1, 2016 and November 1, 2016 for \$357,035 and \$505,000, respectively.

The terms of both loans require debt service to be paid over a 22 year period. The rate of interest on the loans are 2%.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2016**

Construction Commitments

At June 30, 2016, the only ongoing project was for Well 19 and at year end, the District had completed 98% of the exploratory phase of the project and is now in the initial stages of the production facilities phase of the project. (design and construction of the well facilities).

At year end, the District had completed 15% of the design which is approximately 2% of the overall production facilities phase.

Contract

The District has granted a first lien on the Pledged Revenues and a security interest therein, for payment of the principal, interest, administrative fees, and any other amount due under the loan agreement.

Effective July 1, 2011, the District renewed its contract with a contractor to provide day-to-day operations and management of the District's water system. The term of the agreement was for four years commencing on the 1st day of July 2011, with an option to extend for an additional period of up to four years through formal amendment. The agreement was renewed for the additional four year period on June 16, 2014, effective July 1, 2014.

As part of the contract renewal, a fixed annual increase of 2.5% was agreed upon for base fees for the fifth through eighth contract years.

The Contractor's compensation for services performed under this agreement in fiscal year 2016 is \$1,038,745, plus NM gross receipts tax, for the fifth year of this agreement.

Contractor compensation consists of the base fee, \$910,853, an allowance of \$53,892 for services related to the District's mandatory participation in the NM 811 (NM One Call) underground utility location program, an allowance of \$60,000 for materials and specialty services for utility repairs, and an allowance of \$14,000 for fuel. A no-cost change order was proposed by OMI and accepted by the District, for SCADA system improvement services, as a good-faith effort by OMI to address the District's concerns about the impact of the OMI contract on the District's budget. The stated value of the services covered under Change Order #3 is \$47,062.

Mortgage Agreement

The District entered into a mortgage agreement in which the mortgagor has agreed to pay the District (the mortgagee) \$232,963 pursuant to a Judgment entered by the Santa Fe County District Court. The rate of interest on the mortgage accrues at the rate of 15% per annum from entry of the judgment on January 18, 2015, until paid.

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ELDORADO AREA WATER AND SANITATION ELDORADO AREA WATER AND SANITATION DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY OF PERA FUND DIVISION;
MUNICIPAL GENERAL DIVISION
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS*

	<u>2016</u>	<u>2015</u>
	Measurement Date as of	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
The Eldorado Area Water and Sanitation District's proportion of the net pension liability (asset) (%)	0.0183%	0.0186%
The Eldorado Area Water and Sanitation District's proportionate share of the net pension liability (asset) (\$)	\$ 186,584	145,100
The Eldorado Area Water and Sanitation District's covered-employee payroll	\$ 151,885	150,963
The Eldorado Area Water and Sanitation District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	122.85%	96.12%
Plan fiduciary net position as a percentage of the total pension liability	76.99%	81.29%

*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, the District will present information for those years for which information is available.

Changes of Benefit Terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at <http://www.nmpera.org/assets/uploads/downloads/gasb-67-supplemental-reports/NM-PERA-Employer-Allocation-Report-FINAL-2015.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>.

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ELDORADO AREA WATER AND SANITATION DISTRICT'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
PERA FUND DIVISION; MUNICIPAL GENERAL DIVISION
LAST 10 FISCAL YEARS*

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 14,537	14,505
Contributions in relation to the contractually required contribution	<u>14,537</u>	<u>14,505</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
Eldorado Area Water and Sanitation District's covered-employee payroll	\$ 152,220	151,885
Contributions as a percentage of covered-employee payroll	9.55%	9.55%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, The District will present information for those years for which information is available.

Changes of Benefit Terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at <http://www.nmpera.org/assets/uploads/downloads/gasb-67-supplemental-reports/NM-PERA-Employer-Allocation-Report-FINAL-2015.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
ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Budget (Non-GAAP Budgetary Basis) and Actual
For The Five Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Budgetary Basis)	Final to Actual
Operating revenues				
Water sales	\$ 2,285,247	2,285,247	2,617,920	332,673
Total operating revenues	<u>2,285,247</u>	<u>2,285,247</u>	<u>2,617,920</u>	<u>332,673</u>
Operating expenses				
Contractual services	1,291,295	1,291,295	1,433,333	(142,038)
Other operating costs	250,452	250,452	350,355	(99,903)
Personnel services -salaries and benefits	199,980	199,980	85,368	114,612
Supplies	3,500	3,500	5,181	(1,681)
Water conservation fee	5,250	5,250	4,134	1,116
Travel	7,250	7,250	2,267	4,983
Capital outlay	2,181,372	2,181,372	1,364,759	816,613
Debt service:				
Principal	717,490	717,490	717,190	300
Interest	<u>392,214</u>	<u>392,214</u>	<u>392,216</u>	<u>(2)</u>
Total operating expenses	<u>5,048,803</u>	<u>5,048,803</u>	<u>4,354,803</u>	<u>694,000</u>
Non-operating revenues (expenses)				
Ad valorem taxes	1,198,971	1,198,971	1,147,283	(51,688)
Other revenue	-	-	975	975
Interest income	4,710	4,710	8,869	4,159
Other expenses	<u>(78,300)</u>	<u>(78,300)</u>	-	78,300
Total non-operating revenues	<u>1,125,381</u>	<u>1,125,381</u>	<u>1,157,127</u>	<u>31,746</u>
Capital contributions				
Capital grant	<u>945,801</u>	<u>945,801</u>	<u>940,848</u>	<u>(4,953)</u>
Total capital contributions	<u>945,801</u>	<u>945,801</u>	<u>940,848</u>	<u>(4,953)</u>
Excess (deficiency) of revenues and sources over (under) expenses and uses	(692,374)	(692,374)	361,092	(334,534)
Other financing sources (uses)				
Designated cash	<u>692,374</u>	<u>692,374</u>	-	(692,374)
Total other financing sources (uses)	<u>\$ 692,374</u>	<u>692,374</u>	<u>-</u>	<u>(692,374)</u>
Net change in net position (non-GAAP budget basis)			\$ 361,092	
Adjustments for GAAP basis				
Depreciation			(521,994)	
Adjustment for bond interest and bond premiums			146,072	
Capital outlay			1,364,759	
Principal payments on debt			<u>717,190</u>	
			<u>1,706,027</u>	
Net change in net position before contributions (GAAP basis)			\$ <u>2,067,119</u>	

The accompanying notes are integral to these financial statements

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
As of June 30, 2016

<u>Account Name/Type</u>	<u>Deposits</u>		<u>Investments</u>		<u>Totals</u>
	<u>First National Bank of Santa Fe</u>	<u>U.S. Treasury MM Mutual Fund</u>	<u>NewMexigrow LGIP</u>		
Deposits					
First National Bank of Santa Fe					
Checking	\$ 258,885	-	-	-	258,885
Savings	35,133	-	-	-	35,133
Tax accounts	14,744	-	-	-	14,744
New Mexico Finance Authority					
Reserve Account	-	486,528	-	-	486,528
Debt Service Account	-	95,024	-	-	95,024
Investments					
LGIP-Property Tax Revenue	-	-	149,798	-	149,798
LGIP-Utility Acquisition	-	-	936,476	-	936,476
LGIP-Operating Reserve	-	-	383,568	-	383,568
Total deposits and investments	<u>308,762</u>	<u>581,552</u>	<u>1,469,842</u>		<u>2,360,156</u>
Reconciling items	<u>(151,591)</u>	-	-		<u>(151,591)</u>
Reconciled balance	\$ <u>157,171</u>	<u>581,552</u>	<u>1,469,842</u>		<u>2,208,565</u>
Unrestricted Cash					
Cash and cash equivalents				\$	157,171
Restricted Cash					
Meter deposits					44,900
Debt service					<u>581,552</u>
Total Restricted Cash					<u>626,452</u>
Unrestricted Investments:					
Investments				\$	<u>253,807</u>
Restricted Investments					
Debt service					149,798
Cost of utility acquisition and improvements					886,462
Water rights acquisition					<u>134,875</u>
Total restricted investments					<u>1,171,135</u>
Total Cash and Investments				\$	<u>2,208,565</u>

**ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (EXCLUDING GRT) (UNAUDITED)
For The Year Ended June 30, 2016**

Prepared by: District Representative
Title: Procurement Officer

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</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>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
4013	Eldorado Area Water and Sanitation District	Special Districts	SWPA		Baker Utility Supply	Winner	NA	NA	NA	Yes	No	Utility Materials	
4013	Eldorado Area Water and Sanitation District	Special Districts	SWPA		Don Chalmers Ford	Winner	NA	NA	NA	Yes	No	Trucks	
4013	Eldorado Area Water and Sanitation District	Special Districts	ELD-131-20	Competitive (RFP or RFB)	Hays Plumbing & Heating, Inc.	Winner	\$ 456,937	\$ 474,492	600 Railroad Ave, Las Vegas, NM 87701	Yes	No	Construction: Well 2b	
					K. D. Huey	Loser			2130 State Highway 48, Capitan, NM 88316	Yes	No		
4013	Eldorado Area Water and Sanitation District	Special Districts	R-15-06-01	Competitive (RFP or RFB)	Law & Resource Planning Associates, P.C.	Winner	Time and Materials	No	201 3rd Street NW, Ste 1750, Albuquerque, NM 87102	Yes	No	Legal Services	
					Barela-Gutierrez Law Firm	Loser			P.O. Box 3007, Corrales, NM 87048	Yes	No		
					Keleher & McLeod, P.A.	Loser			201 3rd St NW #1200, Albuquerque, NM 87102	Yes	No		
4013	Eldorado Area Water and Sanitation District	Special Districts	R-12-02-02	Competitive (RFP or RFB)	Molzen Corbin	Winner	Time and Materials	No	2701 Miles Rd SE, Albuquerque, NM 87106	Yes	No	Engineering Services	
					DB Stevens & Assoc	Loser			6020 Academy Road NE, Suite 100, Albuquerque, NM 87109	Yes	No		
					Santa Fe Engineering Consultants	Loser			6020 Academy Road NE, Suite 100, Albuquerque, NM 87109	Yes	No		
					Souder, Miller & Assoc.	Loser			2904 Rodeo Park Drive East, Bldg 100, Santa Fe, NM 87505	Yes	No		
4013	Eldorado Area Water and Sanitation District	Special Districts	R-11-03-01	Competitive (RFP or RFB)	OMI	Winner	\$ 978,397	\$ 1,015,215	9193 South Jamaica St, Ste 400, Englewood, CO 80112	Yes	No	Operations and Management Services	
4013	Eldorado Area Water and Sanitation District	Special Districts	R-12-04-01	Competitive (RFP or RFB)	Paul Butt	Winner	Time and Materials	Time and Materials	23 Moya Loop, Santa Fe, NM 87508	Yes	No	Financial Coordination and Bookkeeping Hourly rate was determined by contract	
					Richard G. Robinson, CPA	Loser			5 Caliente Rd #1a, Santa Fe, NM 87508	Yes	No		
4013	Eldorado Area Water and Sanitation District	Special Districts	R-12-02-01	Competitive (RFP or RFB)	Raveling Consulting	Winner	Time and Materials	No	P.O. Box 308, Glorieta, NM 87535	Yes	No	Capital Improv. Projects Management	
					Ortiz Infrastructure Mgt	Loser				Yes	No		
					Southwest Designs	Loser			12 Feather Catcher Road, Santa Fe, NM 87506	Yes	No		
					Toluca Enterprises	Loser			3321 Rio Grande Blvd., NW, Albuquerque, NM 87107	Yes	No		
4013	Eldorado Area Water and Sanitation District	Special Districts	ELD-103-20	Competitive (RFP or RFB)	Smithco Construction, Inc.	Winner	\$ 541,470	\$ 540,338	1010 King Canyon Loop, Caballo, NM 87931	Yes	No	Construction: Old Road Ranch Booster Pump Station and area pipeline replacements.	
					AAC Construction	Loser			18 La Luna Road Santa Fe, NM 87507	Yes	No		
					Blue Line Construction	Loser			20 Reata Road, Santa Fe, NM 87507	Yes	Yes		
					Century Club Construction	Loser			8201 Golf Course Road NW, Albuquerque, NM 87120	Yes	Yes		
					RMCL, Inc	Loser			6211 Chappell Rd NE, Albuquerque, NM 87113	Yes	No		
					Saigan Construction	Loser			4735 Corrales Rd, Corrales, NM 87048	Yes	No		
					TLC Plumbing & Utility	Loser			000 Edith Blvd. NE, Albuquerque, NM 87107	Yes	No		



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

Governing Board of
Eldorado Area Water and Sanitation District
and
Mr. Tim Keller, New Mexico State Auditor

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 business type activities of the Eldorado Area Water and Sanitation District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and the related budgetary comparison of the District, presented as supplementary information, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 describe 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 significant deficiencies: 2016-001 through 2016-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations

December 7, 2016

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, continued

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses 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.



Hinkle + Landers, PC
Albuquerque, NM
December 7, 2016

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016**

SUMMARY OF FINDINGS AND RESPONSES

Reference #	Finding	Status of Prior Year Findings	Type of Finding
Prior Year Findings			
None		N/A	
Current Year Findings			
2016-001	CONTROLS OVER CUSTOMER BILLING PROCESS	Current	B
2016-002	BANK AND INVESTMENT RECONCILIATION CONTROLS	Current	B
2016-003	LACK OF CONTROLS FOR JOURNAL ENTRIES	Current	B

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance to Federal Awards
- G. Non-compliance with State Audit Rule, NM State Statutes, NMAC or other entity compliance

CURRENT YEAR FINDINGS

2016-001—CONTROLS OVER CUSTOMER BILLING PROCESS

Type of Finding: B

Statement of Condition

Per our review of internal controls in Customer Billing, we observed the following:

1. All staff members (2 staff members) in customer billing have access to both cash collections and full access to the billing system, including the ability to make adjustments.

Although there do appear to be mitigating controls in place, as a staff member showed the auditor examples of adjustments that have been reviewed by a responsible official outside of customer billing, we did not see a sign-off by the reviewer of the adjustments and could not determine if all adjustments were being reviewed. To ensure that all adjustments are being reviewed (completeness), we believe an adjustment report capturing all adjustments for a period of time should be used as for sign-off purposes.

2. The District’s deposit policy is when a customer has no late payments within an 18 month period, they are refunded their deposit or it is applied to their bill, this is an automated procedure in the District’s billing system.

Other than these deposits over 18 months, there were several other deposits held by the District that were identified as inactive and older than 18 months, which is the prescribed amount of time the District requires for certain new customers to provide a deposit.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016**

Criteria

1. Checks and balances and internal controls should be implemented to mitigate the risk for misappropriation of funds or errors in the customer billing department.
2. The District should adhere to its policy to refund inactive customer deposits after 18 months.

Effect

1. The District appears to have a potential weakness in its revenue/cash receipts process that can easily be mitigated. Without the mitigation, there is a higher risk than necessary that funds could be misappropriated or inappropriate adjustments to a customer's account could occur without timely detection.
2. The District is holding customer's deposits that should be returned to the customer or applied to their current bill for consumption.

Cause

1. In order to perform their job duties efficiently, the customer billing staff need to have full access to the software. Creating a mitigating control to decrease risk for errors and misappropriation of cash may not have been previously considered.
2. Deposits on hand need to be researched on whether the funds need to be returned to the customer or escheated to the State of New Mexico or retained by the District until the customer comes into compliance with the deposit policy.

Recommendation

1. The District should consider printing out an adjustment report on a weekly or monthly basis that will provide responsible officials of the District a tool to identify all adjustments that take place in the billing system. The adjustment reports should be reviewed, signed, and dated by a responsible official who does not have access to cash or the software system.
2. The District should review all adjustments over 18 months old and return the funds to the customer or if the customer cannot be located, the funds should be escheated to the State of New Mexico.

Management Response

The District agrees the auditor's finding, which is primarily due to the limited resources of the District. The district understands the importance of adequate internal controls and appropriate segregation of duties and has implemented a new process effective for FY17 in which a detailed adjustment report along with supporting documentation will be provided to the General manager for review and approval on a monthly basis. In addition, the District will evaluate the customer deposits that are older than 18 months to determine if they need to be escheated to the State. The District's contract accountants will be responsible for the corrective action implementation by February 2017.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016**

2016-002—BANK AND INVESTMENT RECONCILIATION CONTROLS

Type of Finding: B

Statement of Condition

Per our review of the District's internal controls over cash and investments, we noted the following:

- The bank reconciliations related to the District's operations did not appear to include a review of monthly bank statements to their respective reconciliation by a responsible official of the organization.

- Investments statements did not appear to include a review of monthly investment statements to their respective reconciliation by a responsible official of the organization.

Criteria

In general, an essential element of any preventative control system is segregation of functions in such a manner that no single individual can perpetrate an error without the error being discovered in a timely manner. Three general categories of functions should be separated to achieve effective internal controls, including:

- Functions involving the custody of assets (e.g. handling cash, check stock, etc.),
- Functions involving recording transactions (e.g. bank reconciliations, bookkeeping,), and
- Functions involving authorization (e.g. signing checks, approving purchases).

When limited resources prevent separation of duties, management should consider establishing compensating controls to compensate for identified limitations. Members of the governing board and the Treasurer may serve in this capacity by reviewing bank reconciliations, journal entries, disbursements, monthly financial reports, etc.

Cash and investment assets are vulnerable due to availability and liquidity; therefore, adequate internal controls involve measures to prevent theft or other misuses of these assets. A review of bank and investment statements and reconciliation reports by upper management and/or the governing body is an important control to identify errors or misappropriations in a timely manner. It is good practice that the preparer and the reviewer sign off and date each bank and investment reconciliation so as to ensure their timely review and indicate responsibility over fiduciary duties has taken place.

Effect

If bank and investment statements and reconciliations reports are not properly and timely reviewed, there is the opportunity for material errors or fraud to occur that may not be detected, if at all or in a timely manner.

Cause

Because of the limited resources, it doesn't appear practical to segregate duties related to cash and investment controls and, although it is understood that the Board may obtain and review bank statements and other records when requested, it does not appear that adequate routine compensating controls have been implemented.

Recommendations

We recommend a strong review of the monthly bank and investment statements and bank and investment reconciliation reports be conducted on a timely basis. The reviews should be done by a responsible official

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016**

from management or from the Board of the Directors who does not have access or the opportunity to handle cash, check stock or investments.

Management Response

The District agrees that bank and investment reconciliations from July 2015 – May 2016 lacked a review by someone independent of the preparer, which is primarily due to the limited resources of the District. While we understand the importance of adequate internal controls and appropriate segregation of duties, it is also important to note that the District had compensating controls to mitigate the risk associated with inadequate segregation of duties. The individual responsible for the bank reconciliations during the fiscal year didn't have custody of the assets and didn't have the ability to approve purchases or sign checks or access the cash or investments held by the institutions. Furthermore, the District hired an accounting firm as of July 1, 2016, in which all bank and investment reconciliations of the District are prepared and reviewed by different individuals, additional corrective action is not necessary to address the auditor's finding.

2016-003—LACK OF CONTROLS FOR JOURNAL ENTRIES

Type of Finding: B

Statement of Condition

During our test of internal controls and test of transactions, we requested a review of 5 journal entries. The auditors noted that the journal entries reviewed did not have written documentation of authorization approving the journal entries by a responsible official of the District. Per review of the adjustments sampled, all appeared reasonable and an expansion of journal entries sampling was not considered necessary.

Criteria

Auditors are required to assess the risk of management override of controls per AU 316 (SAS 99) and therefore, one of the key areas auditors are required to review are adjusting journal entries and other adjustments for evidence of possible material misstatement due to errors or fraud by recording inappropriate or unauthorized journal entries throughout the year or at period end.

As part of the procedures related to journal entries, there should be supporting documentation that includes the reason for the adjustment, and approvals and authorization for journal entries.

Cause

The District does not have a policy in place to ensure that all non-routine or key journal entries need to have authorization and approval.

Effect

Inadequate internal oversight can heighten the potential for errors or even fraud in the District's general ledger and financial statements.

Recommendation

The District should design and implement policies related to journal entries to ensure that all non-routine or key journal entries have authorization and approval.

STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016

Management's Response

The District agrees that during the fiscal year, the District lacked a process in which journal entries posted to the accounting system were reviewed by someone independent of the preparer. Given the limited resources of the District, there were various compensating controls to mitigate the risk associated with inadequate segregation of duties. Furthermore, the District hired an accounting firm as of July 1, 2016, in which all journal entries of the District are subject to an independent review and additional corrective action is not necessary to address the auditor's finding.

**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
EXIT CONFERENCE
For The Year Ended June 30, 2016**

An exit conference was held in a closed session on December 7, 2016, at the District's Offices in Santa Fe, New Mexico. In attendance were the following:

Eldorado Area Water and Sanitation District

David Burling	Finance Committee Chair
Gene Schofield	Finance Committee
David Chakroff	General Manager
Elizabeth, Roghair, CPA	Treasurer
Matt Bone, CPA, CGMA, CGFM	Contract Accounting Firm
Erin Gandara	Contract Accounting Firm

Hinkle + Landers, PC

Farley Vener, CPA, CFE, CGMA	President & Managing Shareholder
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FINANCIAL STATEMENTS

The financial statements of the District as of June 30, 2016, were substantially prepared by Hinkle + Landers, PC, however, the financial statements are the responsibility of management.