

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2016

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2016

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
OFFICIAL ROSTER
June 30, 2016

Name

Title

GOVERNING BOARD

Telesfor R. Gonzales

Chairman

Cris J. Cisneros

Vice-Chairman

Elaine Trujillo

Secretary/Treasurer

John S. Painter

Member

Bernadine de Herrera

Member

Administrative Official

Christine Martinez

General Manager

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Timothy Keller
New Mexico State Auditor
Office of Management and Budget and
Board of Directors
El Prado Water & Sanitation District
El Prado, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the budgetary comparison of El Prado Water & 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 El Prado Water & Sanitation District's basic financial statements as listed in the table of contents. We did not audit the 2015 Schedule of Employer Allocations and Pension Amounts of the State of New Mexico Public Employees Retirement Association (PERA), the administrator of the cost sharing pension plan for District. The schedules and statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to El Prado Water & Sanitation District'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 El Prado Water & Sanitation District'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.

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Opinions

In our opinion, based on our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the budgetary comparison of El Prado Water & Sanitation District, as of June 30, 2016, and the respective changes in financial position and its cash flows 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* on pages 11-16, the *Schedule of the Proportionate Share of the Net Pension Liability* on page 51, the *Schedule of Contributions* on page 53, and the notes to the required supplementary information on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on El Prado Water & Sanitation District's financial statements and the budgetary comparison. The other schedules as required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The other schedules required by 2.2.2 NMAC are the responsibility of management and was derived from and relates 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 statement 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 other schedules as required by 2.2.2 NMAC is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2016 on our consideration of the El Prado Water & Sanitation 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 El Prado Water & Sanitation District's internal control over financial reporting and compliance.

Precision Accounting, LLC

Precision Accounting, LLC
Albuquerque, New Mexico
August 11, 2016

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**El Prado Water & Sanitation District
Management's Discussion and Analysis
June 30, 2016**

As management of El Prado Water & Sanitation District ("District") we offer 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. We encourage readers to consider the information presented here in conjunction with the financial statements of the District and additional information provided.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,858,551 (*Net Position*). This entire amount is to be used to meet the District's ongoing obligations to citizens and creditors and construct the water and wastewater systems.
- The District's total Net Position decreased by \$(280,337) during the fiscal year. The majority of this is due to an increase in capital assets and an increase in long term debt.
- The District's total debt increased by \$39,807 during the current fiscal year as a result of legal expenses and the acquisition of water rights.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) government-wide financial statements (entire fund) and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Statements. The *government-wide 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.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, maintains only one enterprise fund for its operations.

**El Prado Water & Sanitation District
Management's Discussion and Analysis
June 30, 2016**

Proprietary funds. Proprietary funds are generally used to account for sewer or water services for which the District charges its customers. All activity was accounted for in one fund. The District maintains one type of proprietary fund.

Enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for the operations of the water and sanitation operations of the District. The enterprise fund is considered to be the only major fund of the District.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-48 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

As noted earlier, Net Position may serve over time as a useful indicator of a government's financial position. In the case of El Prado Water & Sanitation District, assets exceeded liabilities by \$7,858,551 at the close of the current fiscal year.

	<u>2016 Business-type</u>	<u>2015 Business-type</u>
Assets		
Current and other assets	\$ 505,165	\$ 366,373
Capital assets, net of accumulated depreciation	9,941,185	9,740,258
Deferred outflows of resources	26,385	9,306
Total Assets	<u>10,472,735</u>	<u>10,115,937</u>
Liabilities		
Long-term liabilities outstanding	1,615,048	1,698,606
Other liabilities	934,460	925,395
Total Liabilities	<u>2,549,508</u>	<u>2,624,001</u>
Deferred inflows of resources	64,676	72,667
Net Position		
Net investments in capital assets	8,138,888	7,977,768
Unrestricted	<u>(280,337)</u>	<u>(558,499)</u>
Total Net Position	<u>7,858,551</u>	<u>7,419,269</u>
 Total Liabilities, Deferred inflows, and Net Position	 \$ 10,472,735	 \$ 10,115,937

All of the District's Net Position represents resources that are subject to restrictions. The restrictions are reserved to construct the water and sanitation system.

As of June 30, 2016, El Prado had current and other assets of \$505,165, an increase of \$138,972 over the prior year balance of \$366,373.

El Prado Water & Sanitation District
Management's Discussion and Analysis
June 30, 2016

Changes in Net Position

	2016 Business-type Activities	2015 Business-type Activities
Revenues		
Operation revenues:		
Charges for services	\$ 385,016	\$ 302,952
Gross Receipt Tax	41,504	42,369
Miscellaneous	511,211	49,027
Non-operating revenues:		
Property taxes	161,455	132,572
Intergovernmental	60,906	50,000
State funded by Abeyta Settlement	-	548,800
Interest income	168	174
Total revenues	1,160,260	1,125,894
Expenses		
Advertising	1,934	3,590
Books, dues & registration	2,725	2,462
Debt Service Interest	79,034	96,858
Depreciation	202,199	200,059
Capital Outlay	-	-
Employee salaries	111,044	111,456
Insurance	11,727	11,073
Miscellaneous fees	4,408	1,436
Mileage and per diem	1,364	1,469
Office expenses	4,558	7,785
Other contractual services	180,252	425,346
Payroll related expenses	41,175	26,578
Rent	4,497	2,799
Repair & maintenance	5,673	6,666
Utilities	23,592	27,671
Water System Expense	12,687	46,409
Sewer System Expense	34,109	34,207
Total expenses	720,978	1,005,864
Increase (Decrease) in Net Position	439,282	120,030
Net Position, beginning of year	7,419,269	7,393,016
Restatement	-	(93,777)
Ending Net Position	\$7,858,551	\$7,419,269

**El Prado Water & Sanitation District
Management's Discussion and Analysis**

June 30, 2016

Long term liabilities decreased by \$3,776. Other liabilities increased by \$339,107, with an ending balance of \$934,460. At June 30, 2016, the Net Position of El Prado Water and Sanitation District totaled \$7,858,551 compared to the prior year Net Position of \$7,393,016.

Revenues for the year ending June 30, 2016 were more than the prior year by \$34,366. The main area of increase was the Mil Levy Taxes, which was in the amount of \$28,883. Total expenditures decreased by \$284,886, which includes \$202,199 of depreciation expense and \$79,034 of debt service interest.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

As noted earlier, El Prado Water & Sanitation District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Funds. The District's proprietary fund provides the same type of information found in the governmental-wide financial statements, but in more detail.

Budgetary Highlights

The State of New Mexico budget process is defined under state law and regulation. To enhance the process of developing a budget at the District level, El Prado Water and Sanitation District utilizes goals and objectives defined by the Board of Directors, community input meetings, long term plans for water and wastewater system development and input from professional and non-professional staff to develop the District budget. District priorities are well defined through this process.

GASB Statement No. 34 does not require a statement presenting the overall result of the budget for each year; however, all major budgetary funds are required to be reported as a separate statement.

The District's final budget did not change.

**El Prado Water & Sanitation District
Management's Discussion and Analysis**

June 30, 2016

Capital Asset and Debt Administration

Capital assets. El Prado Water & Sanitation District's capital assets for its governmental and business-type activities as of June 30, 2016 amount to \$9,941,185 (net of accumulated depreciation). Capital assets include land, water rights, building & building improvements, furniture, fixture & equipment and utility plant in service.

Capital Assets, Net of Accumulated Depreciation
June 30, 2016 and 2015

	2016 Business-type	2015 Business-type
Land	\$ 1,016,062	\$ 1,016,062
Water Rights	2,992,457	2,137,657
Building & Building Improvements	1,312,646	1,312,646
Equipment, Furniture & fixtures & Vehicles	208,379	188,705
Utility plant in service	6,508,399	6,418,696
Total capital assets	12,037,943	11,073,766
Accumulated Depreciation	(2,096,758)	(1,694,500)
Capital assets, net of accumulated depreciation	\$ 9,941,185	\$ 9,379,266

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date. See Note 6 on page 34 in the accompanying Notes to the Financial Statements for further information regarding capital assets.

**El Prado Water & Sanitation District
Management's Discussion and Analysis
June 30, 2016**

Debt Administration. At the end of the current fiscal year, the District had total long-term obligations outstanding of \$1,922,608. The debt consists of twelve loans payable.

	2016 Business-type Activities	2015 Business-type Activities
USDA 4.25% (Looping Line 1)	\$ 214,646	\$ 218,481
USDA 4.25% (WR)	44,157	44,899
NMFA Loan 0% (WTR-3)	30,707	35,780
NMFA Loan 0% (WTR-4)	23,125	26,945
Centinel 6.25% Feb 2007	453,076	472,535
NMFA Loan 0% (WTR-8) June 2007	25,787	28,330
NMFA Loan 0% (WTR-9)	246,612	266,831
NMFA Loan 0% (WTR-11)	116,739	125,563
Promissory Note- Coppler Law Firm 3%	211,822	228,579
Promissory Note- Anthanor LLC 5%	21,050	42,100
Promissory Note- Perovich 6%	175,000	-
Ally Bank- vehicle 5.99%	-	8821
Promissory Note- Weimer Properties 5%	239,655	263,556
	\$ 1,802,376	\$ 1,762,420

See note 7 on pages 35-39 in the accompanying Notes to the Financial Statements for further information regarding El Prado Water & Sanitation District's long-term debt.

FUTURE TRENDS

The District has fully expended all grants from the State of New Mexico by the end of FY 2015-2016. The El Prado Water and Sanitation District Board of Directors and its staff continue to dedicate themselves to the citizens of the El Prado Community by honestly representing an accurate and fairly stated set of financial records. We recognize and strive to keep water and sewer fees as low as possible and hope that the mil levy will eventually be something of the past.

In addition we pledge to continually have the community's best interest at heart while expanding our water and sewer services at the lowest cost for our customers.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of El Prado Water & Sanitation District's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Christine Martinez, General Manager, El Prado Water & Sanitation District, P.O. Box 1110, El Prado, NM 87529.

BASIC FINANCIAL STATEMENTS

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STATE OF NEW MEXICO
El Prado
Water and Sanitation District
Statement of Net Position
June 30, 2016

Exhibit A-1

ASSETS

Current assets:

Cash and cash equivalents	\$ 274,525
Investments- Certificate of Deposit	34,995
Accounts receivable-customers	118,345
Accounts receivable-property taxes	70,820
Accounts receivable-gross receipts taxes	3,238
Prepaid expenses	3,242
Total current assets	505,165

Capital assets:

Land	1,016,062
Water Rights	2,992,457
Building & Building Improvements	1,312,646
Equipment, Furnitures & Fixtures, & Vehicles	208,379
Utility plant in service	6,508,399
Less accumulated depreciation	(2,096,758)
Net capital assets	9,941,185

Deferred Outflows of Resources:

Post Measurement Date Contributions-Employer	8,660
Change in Proportion	17,725
Total Deferred Outflows of Resources	26,385
Total Assets	\$ 10,472,735

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Current liabilities:

Accounts payable	\$ 570,563
Accrued interest	42,570
Accrued liabilities	7,731
Current portion of long-term debt	313,596
Total Current Liabilities	934,460

Non-current liabilities:

Accrued compensated absences	6,036
Loans payable	1,488,701
Net Pension Liability	120,311
Total long-term liabilities	1,615,048

Total liabilities

2,549,508

Deferred inflows of resources

Delinquent Property Taxes	61,630
Actuarial Experience for Net Pension Liability	2,665
Investment Experience for Net Pension Liability	381
Total deferred inflows of resources	64,676

Total liabilities and deferred inflows of resources

2,614,184

NET POSITION

Net Investment in Capital Assets	8,138,888
Unrestricted	(280,337)
Total net position	7,858,551

Total Liabilities, Deferred inflows of resources and Net Position

\$ 10,472,735

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STATE OF NEW MEXICO
El Prado
Water and Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

Exhibit A-2

Operating revenues:	
Commercial Fees	\$ 244,371
Residential Fees	140,645
<i>Total operating revenues</i>	385,016
 Operating expenses:	
Advertising	1,934
Bank Fees	187
Debt Service Interest	79,034
Depreciation	202,199
Dues and Subscriptions	2,725
Insurance	11,727
Mil Levy Admin Fees	1,615
Office expenses	4,558
Office repairs & maintenance	5,673
Office Utilities	6,407
Other contractual services	180,252
Payroll	111,044
Payroll related expenses	41,370
Postage	2,411
Rent Expense	4,497
Sewer System Expense	34,109
System Utilities	17,185
Vehicle Expense	1,364
Water System Expense	12,687
<i>Total operating expenses</i>	720,978
<i>Operating income (loss)</i>	(335,962)
 Non-operating revenues:	
Mil Levy Taxes	161,455
Gross Receipts tax revenues	41,504
Rental Income	39,747
Miscellaneous	471,464
Intergovernmental grants	60,906
Interest income	168
Non-operating revenue	775,244
Net Income (Loss)	439,282
Net Position, beginning of year	7,419,269
Net Position, at end of year	\$ 7,858,551

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El Prado Water and Sanitation District
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from customers	\$ 385,016
Other Revenues	\$ 775,244
Cash paid to suppliers and employees	<u>(720,978)</u>
Net cash flows provided by operating activities	<u>\$ 439,282</u>
Cash flows from investing activities:	
Increase in capital assets	<u>(411,073)</u>
Net cash flows used by investing activities	<u>(411,073)</u>
Cash flows from financing activities:	
Principal Pmts on LTD	(140,072)
Issuance of long-term debt	<u>175,000</u>
Net cash flows provided by financing activities	<u>34,928</u>
Net decrease in cash and cash equivalents	63,137
Cash and cash equivalents, beginning of year	<u>246,383</u>
Cash and cash equivalents, end of year	<u><u>\$ 309,520</u></u>
Reconciliation of change in net position to net cash provided by operating activities:	
Operating income (loss)	\$ (335,962)
Adjustment to reconcile change in net income to net cash provided by operating activities:	
Depreciation	202,199
Intergovernmental grants	60,906
Mil Levy	161,455
Gross Receipts	41,504
Rents	39,747
Misc Income	471,464
(Decrease) Increase in:	
Accounts receivable	75,252
Prepaid expenses	403
Deferred Outflows	17,079
Increase (Decrease) in:	
Accounts payable	3,007
Accrued expenses	(169,302)
Deferred Inflows	(129,584)
Accrued comp absences	<u>1,114</u>
Net cash provided by operating activities	<u><u>\$ 439,282</u></u>

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

El Prado Water & Sanitation District (the District) is a political sub-division of the State of New Mexico that was authorized by the District Court for Taos County on August 12, 1981.

The District is engaged in the development of a water and sanitation district for the El Prado area in Northern New Mexico. The District serves approximately 489 units, providing drinking water and sewer services to the local people in the rural, non-Indian communities of Taos County.

The Board consists of five members elected by the qualified voters for six year terms. The Board appoints qualified personnel to guide and direct the operations of the District. The Board also approves all major contracts, capital outlay, and other decisions involving the District.

The financial statements of El Prado Water & Sanitation District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The operations of the District are accounted for in one fund.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB 61.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organization if its officials appoint a voting majority of an organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government:

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A. Reporting Entity (continued)

1. Is entitled to the organization's resources;
2. Is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to the organization; or
3. Is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The El Prado Water & Sanitation District did not have any component units during the fiscal year ended June 30, 2016.

B. Business-Type Activities

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities and Changes in Net Position) report information on all of the non-fiduciary activities of the primary government. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – 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.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The Statement of Activities demonstrates the degree to which the direct expense of a given function or segments is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Property taxes are recognized as revenues in the year for which they are levied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred. Billed water and sanitation services receivable are recorded at year-end once operations begin.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue items and are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues are charges to customers who purchase or use or directly benefit from the goods or services provided by the District.

The proprietary fund is accounted for on a cost of services of “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total position) is segregated into contributed capital and Net Position components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Private-sector standards of accounting and financial reporting are now included in GASB guidance from the Accounting Codification Standards.

The District reports its proprietary fund as a major governmental fund.

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

Proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund’s principal

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation, continued

ongoing operations. The principal operating revenue of the District's enterprise fund is charged for water and wastewater services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Position or Equity

Cash and Temporary 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.

State statutes authorize the District to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the District are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. 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.

Accounts Receivable: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The receivables due at June 30, 2016 consist of customer water and sewer fees, and property taxes collected by Taos County and other receivables. All receivables are considered current and collectible. Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. The taxes are an enforceable lien on the property.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and proprietary financial statements.

Capital Assets: Capital assets, which include property, plant, computer software, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
 Notes to Financial Statements
 June 30, 2016

D. Assets, Liabilities and Net Position or Equity, continued

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	40
Land Improvements	40
Furniture & Equipment	7
Utility Plant in Service	40

Compensated Absences: Full time employees of the District are entitled to accumulate vacation and sick leave. Leave is granted according to a graduated leave schedule, depending on length of service, the employee’s hire date and the employee’s employment status. Upon termination, employees will be paid for accrued annual leave up to 240 hours, but not for sick leave.

Vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of Net Position.

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statements of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Net Position: In the fund financial statements, governmental funds report reservations of Net Position that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of Net Position represent tentative management plans that are subject to change.

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. Accordingly, actual results could differ from those estimates. Significant estimates affecting the District’s financial statements include management’s estimate of the useful lives of capital assets.

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.

STATE OF NEW MEXICO
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E. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium for all of the above risks. There have been no claims for the past five years.

F. Advertising

Advertising costs are expenses as incurred. Advertising costs for the year ended June 30, 2016 were \$1,934.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The budget for the Enterprise Fund is prepared by management and is approved by the Board of Directors.

These budgets are prepared on the GAAP basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

Actual expenditure may not exceed the budget on a per fund basis, i.e., total budgeted expenditure must be within total budgeted amounts. Budgets may be amended in one way. If a budget transfer is necessary within a major category called a “resolution,” this may be accomplished with only Board of Directors approval.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

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

1. On or before July 1 of each year, the Board of Directors, approves and certifies to the estimated operating budgets for use by the local board pending final approval from the State of New Mexico.
2. The State of New Mexico approves the budget for the District to utilize during the year.
3. Budget adjustments may be made during the year. The Board of Directors approves budget resolutions to increase or decrease revenue and/or expenditure line items during the year.

Federal Projects – Federal categorical grants are budgeted on the grant’s project year rather than the District’s fiscal year and, therefore, may not reflect cash basis budgeting. Unexpended portions of prior year’s programs are re-budgeted into the subsequent year’s program budget. Since the programs are incomplete at June 30, the schedules of budgeted and actual revenue and expenditures present unrealized revenue and expended budget, rather than budget saving.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 3. DEPOSITS AND INVESTMENTS

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed 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 by collateral deposited as security or by bond given by the financial institution.

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 of 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.

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

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

All of the investments of El Prado Water & Sanitation District at June 30, 2016, were in short-term investments with a maturity date within a year of the date acquired by the District or in the State Treasurer's pooled investments. The investments are stated at cost, which also approximates market value.

The District's practice is to limit deposits and investments to insured and collateralized time accounts and certificates of deposit with a maturity of less than one year.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 3. DEPOSITS AND INVESTMENTS, continued

Deposits

New Mexico state statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipts be issued, to the District for a least one half of the uninsured amount on deposit with the institution. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

	Centinel Bank	NM Bank & Trust	US Bank
Total amounts of deposits	\$ 128,295	\$ 9,869	\$ 174,050
FDIC coverage	(128,295)	(9,869)	(174,050)
Total uninsured public funds	<u>\$ -</u>	<u>-</u>	<u>-</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -
Pledged Collateral held by pledging bank's trust department or agent but not in the agency's name	<u>-</u>	<u>-</u>	<u>-</u>
Total under (over) collateralized	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Custodial credit risk-Uninsured deposits	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk, other than following states statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2016, none of the District's bank balance of \$312,214 was exposed to custodial credit risk because none was uninsured due to FDIC coverage. At June 30, 2016, the carrying amount of these deposits was \$309,520 as shown on the next page.

Investments

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		<u>Less than 1 Year</u>
Certificate of Deposit	\$ 34,995	\$ 34,995

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 3. DEPOSITS AND INVESTMENTS, continued

Reconciliation of Cash and Temporary Investments	
Business-type funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 309,520
Add outstanding checks and other reconciling items	4,288
	<u>250,671</u>
Less petty cash	<u>(200)</u>
Bank balance of deposits	<u><u>\$ 250,471</u></u>

NOTE 4. RECEIVABLES

Receivables as of June 30, 2016, are as follows:

Property taxes	\$ 70,820
Customer Receivables	118,345
Gross Receipts Taxes Receivables	<u>3,238</u>
Total	<u><u>192,403</u></u>

The above receivables are deemed 100% collectible.

NOTE 5. PREPAID EXPENSES

The District has insurance policies that are paid in advance and are expensed monthly. There was \$3,242 of prepaid insurance at June 30, 2016.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	2015 Balance	Additions	Deletions	2016 Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land	\$ 1,016,062	\$ -	\$ -	\$ 1,016,062
Water Rights	2,686,457	306,000	-	2,992,457
Building & Building Improvements	1,312,646	-	-	1,312,646
Equipment, Furniture, Fixtures & Vehicles	200,946	7,423	-	208,379
Utility plant in service	6,418,696	89,703	-	6,508,399
Total Capital Assets	5 <u>11,634,817</u>	<u>403,126</u>	<u>-</u>	<u>12,037,943</u>
Less accumulated depreciation				
Building & Building Improvements	(76,088)	(32,816)	-	(108,904)
Equipment, Furniture, Fixtures & Vehicles	(40,704)	(8,519)	-	(49,223)
Utility plant in service	<u>(1,777,767)</u>	<u>(160,864)</u>	<u>-</u>	<u>(1,938,631)</u>
Total Accumulated Depreciation	<u>(1,894,559)</u>	<u>(202,199)</u>	<u>-</u>	<u>(2,096,758)</u>
Total capital assets, net	<u>\$ 9,740,258</u>	<u>200,927</u>	<u>\$ -</u>	<u>\$ 9,941,185</u>

The District recorded the following depreciation expense for the year ended June 30, 2016.

Building & Building Improvements	\$ 32,816
Equipment, Furniture, Fixtures & Vehicles	8,519
Utility plant in service	160,864
Total Depreciation Expense	<u>\$ 202,199</u>

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 7. LONG-TERM DEBT

During the year ended June 30, 2016, the following changes occurred in the liabilities reported in the government-wide statement of Net Position:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Due within One Year
USDA/RUS 4.25% (LL1)	\$ 44,899	-	\$ 739	\$ 44,157	\$ 730
USDA/RUS 4.25% (WR)	218,481	-	3,808	214,646	3,973
NMFA Loan 0% (WTR-3)	35,780	-	5,073	30,707	5,086
NMFA Loan 0% (WTR-4)	26,945	-	3,820	23,125	3,830
Centinel Bank 6.25%	472,535	-	19,459	453,076	29,238
NMFA-WTB Loan 0% (WTR-8)	28,330	-	2,543	25,787	2,550
NMFA-WTB Loan 0% (WTR-9)	266,831	-	20,219	246,612	20,270
NMFA WTB Loan 0% (WTR-11)	125,563	-	8,824	116,739	8,846
Promissory Note- Coppler Law Firm 3%	228,579	-	16,757	211,822	17,926
Promissory Note-Athamor LLC 5%	42,100	-	21,050	21,050	21,050
Ally Bank-Suzuki Truck 5.99%	8,821	-	8,821	-	-
Promissory Note- Weimer Prop 5%	263,556	-	23,901	239,655	25,097
Promissory Note- Perovich 6%	-	175,000	-	175,000	175,000
Total Long-Term Debt	\$ 1,762,420	\$ 175,000	\$ 135,014	\$ 1,802,376	\$ 313,596

The annual requirements to amortize the USDA/RUS, 4.25% (Looping Line 1) as of June 30, 2016, including interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 730	\$ 1,872	\$ 2,602
2018	762	1,840	2,602
2019	795	1,807	2,602
2020	829	1,773	2,602
2021	865	1,737	2,602
2022-2026	4,920	8,087	13,007
2027-2031	6,084	6,926	13,010
2032-2036	7,522	5,487	13,009
2037-2041	9,298	3,709	13,007
2042-2046	12,352	1,523	13,875
Total	\$ 44,157	\$ 33,238	\$ 77,395

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the USDA/RUS, 4.25% (WR) as of June 30, 2016, including interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2017	3,973	9,035	13,008
2018	4,145	8,863	13,008
2019	4,325	8,684	13,009
2020	4,512	8,496	13,008
2021	4,708	8,301	13,009
2022-2026	26,833	38,261	65,094
2027-2031	33,112	31,932	65,044
2032-2036	4,937	24,107	65,044
2037-2041	50,610	14,434	65,044
2042-2046	41,545	3,144	44,662
Total	\$ 214,646	\$ 152,113	\$ 366,759

The annual requirements to amortize the NMFA, 0% (WTR-3) as of June 30, 2016, including admin fees are as follows:

Fiscal Year	Principal	Admin Fee	Total
2017	5,086	77	5,163
2018	5,099	64	5,163
2019	5,111	51	5,162
2020	5,124	38	5,162
2021	5,137	25	5,162
2022-2026	5,150	12	5,162
Total	\$ 30,707	\$ 267	\$ 30,974

The annual requirements to amortize the NMFA, 0% (WTR-4) as of June 30, 2016, including admin fees are as follows:

Fiscal Year	Principal	Admin Fee	Total
2017	3,830	\$ 48	\$ 3,878
2018	3,840	39	3,879
2019	3,849	29	3,878
2020	3,859	19	3,878
2021	3,869	9	3,878
2022-2025	3,878	-	3,878
Total	\$ 23,125	\$ 144	\$ 23,269

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the Centinel Bank, 8.25% as of June 30, 2016, including interest payments are as

Fiscal Year	Principal	Interest	Total
2017	29,238	28,372	57,610
2018	31,168	26,441	57,609
2019	33,143	24,466	57,609
2020	35,243	22,366	57,609
2021	37,422	20,188	57,610
2022-2025	216,114	61,934	278,048
2026-2029	70,748	5,837	76,585
Total	<u>\$453,076</u>	<u>\$ 189,604</u>	<u>\$ 642,680</u>

The annual requirements to amortize the NMFA- Water Trust Board Loan, 0%, WTR-8 as of June 30, 2016 are as follows:

Fiscal Year	Principal
2017	2,550
2018	2,556
2019	2,563
2020	2,569
2021	2,575
2022-2026	12,974
Total	<u>\$ 25,787</u>

The annual requirements to amortize the NMFA Loan, 0%, WTR-9 as of June 30, 2016 are as follows:

Fiscal Year	Principal
2017	20,270
2018	20,320
2019	20,371
2020	20,679
2021	20,473
Thereafter	144,499
Total	<u>\$ 246,612</u>

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the NMFA- Water Trust Board Loan, 0%, WTR-11 as of June 30, 2016 are as follows:

Fiscal Year	Principal
2017	8,846
2018	8,868
2019	8,890
2020	8,912
2021	8,935
2022-2026	45,010
2027-2031	27,278
Total	\$ 116,739

The annual requirements to amortize the Promissory Note- Coppler Law Firm, 3% as of June 30, 2016, including interest and payments are as follows:

Fiscal Year	Principal	Interest	Total
2017	17,926	6,074	24,000
2018	18,471	5,529	24,000
2019	19,033	4,967	24,000
2020	19,612	4,388	24,000
2021	20,209	3,791	24,000
2022-2026	110,646	9,354	120,000
2027-2031	5,925	19	5,944
Total	\$ 211,822	\$ 24,000	\$ 245,944

The annual requirements to amortize the Promissory Note- Athanor LLC, 5% as of June 30, 2016, including interest and payments are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 21,050	\$ 1,053	\$ 22,103
Total	\$ 21,050	\$ 1,053	\$ 22,103

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the Promissory Note-Weimer Properties, 5% as of June 30, 2016, including interest and payments are as follows:

Fiscal Year	Principal	Interest	Total
2017	25,097	11,983	37,080
2018	214,558	10,728	225,286
Total	\$ 239,655	\$ 22,711	\$ 262,366

The annual requirements to amortize the Promissory note- Perovich, 6%, as of June 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 175,000	\$ 5,250	\$ 180,250
Total	\$ 175,000	\$ 5,250	\$ 180,250

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. The District is insured through a commercial insurance agency for all insurable risks and employee benefits. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past four years.

NOTE 9. LITIGATION

The District is a party to legal actions arising in the normal course of business. In the opinion of management, based in part on discussions with legal counsel, resolution of such matters will not have a material adverse effect on the financial position and operating results of the District.

NOTE 10. SURETY BOND

District Officials and employees of the District are covered by a surety bond as required by Section 12-6-7, NMSA, 1978 Compilation.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 11. PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan description. The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

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://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.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 29 through 31 of the PERA FY15 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2015.pdf. The PERA coverage options that apply to District are: General Division, Police Division and Fire Division. Statutorily required contributions to the pension plan from the District were \$8,660 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

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 11. PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION, continued

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.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 11. PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION, continued

For PERA Fund Division – the District’s General Division, at June 30, 2016, the District reported a liability of \$120,311 for its proportionate share of the net pension liability. At June 30, 2015, the District’s proportion was 0.0118 percent, which was an increase of .0029 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized PERA Fund – General, pension expense of \$9,952. At June 30, 2016, the District reported PERA Fund Division – General deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 318
Changes of assumptions	-	47
Net difference between projected and actual earnings on pension plan investments	-	2,665
Changes in proportion and differences between the District contributions and proportionate share of contributions	17,725	-
District contributions subsequent to the measurement date	8,660	-
Total	\$ 26,385	\$ 3,030

\$8,660 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:

Year ended June 30:

2017	\$	(3,187)
2018		(3,187)
2019		(3,187)
2020		6,467
2021		-
Thereafter	\$	-

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 11. PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION, continued

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2014 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2014 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 of 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
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirees, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience Study Dates	July 1, 2008 to June 30, 2013

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS – Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	21.1%	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	<u>4.0</u>	4.15
Total	100.0%	

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 11. PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION, continued

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 PERA Fund Division that District participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

PERA Fund Division – General	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District’s proportionate share of the net pension liability	\$ 204,842	\$ 120,311	\$ 50,029

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. At June 30, 2016, the District had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2016.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 12. RETIREE HEALTH CARE

The District had full-time employees during the year; however the District does not participate in the Retiree Health Care Act program.

NOTE 13. JOINT POWERS AGREEMENT

Town of Taos

Purpose: For the Town to provide treatment for the District's wastewater and for the District to purchase such wastewater services from the Town.

Participants: El Prado Water & Sanitation District and the Town of Taos

Responsibility Party for Operation and Audit: None

Beginning and Ending Date of Agreement: Operating month to month until new operating agreement reached.

Total Estimated Amount of Project and Actual Amount Contributed: Unknown

NOTE 14. FEDERAL AND STATE GRANTS

In the normal course of operations, the District receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE 15. RELATED PARTY TRANSACTIONS

The District paid \$2,954 in cleaning costs to True Vine Cleaning which is owned by Mr. and Mrs. Cortez, the parents of a current employee.

NOTE 16. WATER RIGHTS PURCHASED WITH ABEYTA SETTLEMENT

The District was a party to the Abeyta Settlement which was finalized in 2013-2014 Fiscal Year. A settlement was reached which provided money for the purchase of water rights by the parties through the State of New Mexico. The District purchased water rights from the money provided by the State of New Mexico in 2016. Should the federal process not be completed per the settlement agreement, the purchase price of the water rights may have to be returned to the State of New Mexico.

NOTE 17. OTHER DISCLOSURE

The District's Chairman is also the Chairman for the Rio Costilla Water Board and has signed an ISE contract where he is a personal guarantor along with forty-nine (49) other acequia member/owners.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 18. SUBSEQUENT EVENTS REVIEW

El Prado Water & Sanitation District has evaluated subsequent events through August 11, 2016, which is the date the financial statements were dated. As of the date of this report the District's 2016-2017 budget had not been approved by NM Department of Finance and Administration. In July 2016, the District signed a Revenue Bond to assist with the payments of legal fees, related to the Abeyta settlement, and other items. This will fund in August 2016.

NOTE 19. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosures as part of the Combining Statements - Overview of certain information concerning individual funds including:

A. No deficit fund balance of individual funds.

Fund deficits will be funded by general fund transfers or by grant revenues.

B. Expenditures exceeded appropriations by fund.

None

SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
El Prado Water & Sanitation District
Enterprise Fund
Statement of Revenues and Expenditures
Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Commercial Fees	\$ 175,000	\$ 242,372	\$ 244,371	\$ 1,999
Residential Fees	155,800	140,644	140,645	1
<i>Total revenues</i>	<u>330,800</u>	<u>383,016</u>	<u>385,016</u>	<u>2,000</u>
<i>Expenditures:</i>				
Current:				
Advertising	2,200	1,934	1,934	-
Bank Charges/Fees	112	188	187	1
Debt Service Interest	80,737	79,815	80,737	(922)
Depreciation Expense	202,199	202,199	202,199	-
Dues & Subscriptions	2,725	2,725	2,725	-
Insurance	11,727	11,727	11,727	-
Miscellaneous Expense	-	-	1,326	(1,326)
Office Expenses	10,500	8,708	4,558	4,150
Office Maintenance	8,000	5,673	5,673	-
Office Utilities	9,200	6,193	6,407	(214)
Other Contractual Services	47,500	186,587	180,252	6,335
Payroll Expenses	160,512	139,235	152,414	(13,179)
Rental Expenses	3,000	554	4,497	(3,943)
Sewer System Expense	7,500	9,038	34,109	(25,071)
System Utilities	19,100	17,185	17,185	-
Vehicle Expenses	-	-	1,364	(1,364)
Water System Expense	29,300	318,391	13,684	304,707
<i>Total expenditures</i>	<u>594,312</u>	<u>990,152</u>	<u>720,978</u>	<u>269,174</u>
Operating income	<u>(263,512)</u>	<u>(607,136)</u>	<u>(335,962)</u>	<u>271,174</u>
<i>Non-operating revenues:</i>				
Mil Levy	135,000	161,455	161,455	-
Gross Receipts	35,000	41,504	41,504	-
Rent	37,970	39,709	39,747	38
Miscellaneous	11,000	471,632	471,464	(168)
State funded Abeyta Settlement	-	-	-	-
Finance Charges	-	-	-	-
State Grants	-	-	60,906	60,906
Private Grants	-	-	-	-
Interest income	-	-	168	168
<i>Non-operating income</i>	<u>218,970</u>	<u>714,300</u>	<u>775,244</u>	<u>60,944</u>
Change in Net Position (GAAP basis)	<u>\$ (44,542)</u>	<u>\$ 107,164</u>	<u>\$ 439,282</u>	<u>\$ 332,118</u>

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PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
 El Prado Water & Sanitation District
 Required Supplementary Information
 June 30, 2016

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY OF PERA FUND DIVISION – GENERAL
 Public Employees Retirement Association (PERA) Plan
 Last 10 Fiscal Years***

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0118%	0.0089%
District's proportionate share of the net pension liability (asset)	\$ 120,311	\$ 69,430
District's covered-employee payroll	\$ 90,580	\$ 109,618
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.29%	63.34%
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 State of New Mexico will present information for those years for which information is available.

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STATE OF NEW MEXICO
El Prado Water & Sanitation District
Required Supplementary Information
June 30, 2016

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

Public Employees Retirement Association (PERA) Plan

PERA Fund Division - General

Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 8,660	\$ 9,306
Contributions in relation to the contractually required contribution	\$8,660	\$ 9,306
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 90,580	\$ 109,618
Contributions as a percentage of covered-employee payroll	9.56%	8.49%

* 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.

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STATE OF NEW MEXICO
El Prado Water & Sanitation District
Required Supplementary Information
June 30, 2016

Notes to Required Supplementary Information

For the Year Ended June 30, 2016

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.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_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.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2015%20PERA%20Valuation%20Report_FINAL.pdf. The summary of Key Findings for the PERA Fund (on page 2 of the report) states “based on a recent experience study for the five year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of \$30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio. For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

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OTHER SUPPLEMENTAL INFORMATION

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STATE OF NEW MEXICO
 El Prado Water & Sanitation District
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
 FOR PUBLIC FUNDS
 JUNE 30, 2016

Schedule 1

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2016	Name and Location of Safekeeper
Centinel Bank	No pledged collateral due to	-	
US Bank	adequate FDIC insurance coverage	-	
	Total	<u>\$ -</u>	

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
 Schedule of Deposits and Investments
 June 30, 2016

Schedule II

Bank Account Type/Name	Centinel Bank	NM Bank & Trust	US Bank	Totals
Checking-non interest bearing	\$ 128,295	\$ 9,869.00	\$ 104,394	\$ 242,558
CD	-	-	34,828	34,828
Total On Deposit	<u>\$ 128,295</u>	<u>\$ 9,869.00</u>	<u>\$ 139,222</u>	<u>\$ 277,386</u>
Reconciling Items				(3,061)
Petty Cash				<u>200</u>
Reconciled Cash and Investments, June 30, 2016				<u><u>\$ 274,525</u></u>

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Cash Reconciliation
June 30, 2016

Schedule III

	Centinel Bank	NM Bank & Trust	US Bank	Total
Bank balance end of year	\$ 128,295	\$ 9,869	\$ 139,222	\$ 277,386
Deposits in transit	-	-	-	-
Outstanding checks	(3,061)	-	-	(3,061)
Cash, June 30, 2016	\$ 125,234	9,869	\$ 139,222	274,325
Petty Cash				200
Total Cash, June 30, 2016				\$ 274,525

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**El Prado Water & Sanitation District
Schedule of Vendor Information
June 30, 2016**

RFP# RFB#/R FP# / State- Wide Price Agreement	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address of ALL Vendors that responded	In-State/ Out-of- State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N)	Brief Description of the Scope of Work
Bid 4	Request for	Done Right Construction LLC	75,162.00	N/A	Done Right Construction, LLC, 11 Rancho de Valencia,	Y	N	Farm Tank and Miscellaneous Improvements

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Timothy Keller
New Mexico State Auditor and
The Governing Board
El Prado Water & Sanitation District
El Prado, NM

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 and the budgetary comparison of the general fund of El Prado Water & Sanitation District as of and for the year ended June 30, 2016, and have issued our report thereon dated August 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Prado Water & Sanitation District's internal control over financial reporting to determine the auditing 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 El Prado Water & Sanitation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the El Prado Water & Sanitation 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 function, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did not identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Prado Water & Sanitation District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2016-001.

El Prado Water & Sanitation District's Response to Finding

The El Prado Water & Sanitation District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The El Prado Water & Sanitation District's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 El Prado Water & Sanitation District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering El Prado Water & Sanitation District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Precision Accounting, LLC

Precision Accounting, LLC

Albuquerque, NM

August 11, 2016

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2016

Schedule IV

Section I – Prior year findings:

2015-001 Excess Expenditures over Budget (Cleared)

Section II – Current year findings:

2016-001 No Certified Procurement Officer (Other Matter)

CONDITION: The District does not have a certified procurement officer.

CRITERIA: Per NMAC 1.4.1.3 State Procurement Code Regulation, states that agencies must have a certified procurement officer.

CAUSE: The district did not obtain the certified procurement officer certification

EFFECT: Without a certified procurement officer the District appears to be non-compliant with NMAC 1.4.1.3

RECOMMENDATION: We recommend the district attend the appropriate training and obtain the certified procurement officer certification.

CLIENT RESPONSE: One staff member will attend the week long training and test in October 2016 in order to become compliant with NMAC 1.4.1.3 as stated above. The District is very short staffed and one of three employees being away from the office for an entire week creates a burden on the other staff members. This is the reason this has not been taken care of but we will make appropriate arrangements to take care of this matter.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Other Disclosures
For the Year Ended June 30, 2016

Schedule V

Section V – Exit Conference

An exit conference was conducted on August 11, 2016, with the following individuals:

EL PRADO WATER & SANITATION DISTRICT

Telesfor R. Gonzales, Chairman

Christine Martinez, General Manager

John Painter, Member

Precision Accounting LLC

Melissa R. Santistevan, CPA, CFE, CGMA, CICA

Daniel Perea, Senior Accountant

Zach Hayes, Staff Accountant

Alexandra Yebra, Staff Accountant

Section VI – Financial Statements

El Prado Water and Sanitation District has the capability of understanding and accepting the responsibility for their GAAP-basis financial statements but has delegated the preparation of the financial statements to the auditors under the contract.