

**STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT**

Annual Financial Report
For the Year Ended June 30, 2017

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Official Roster
June 30, 2017

GOVERNING BOARD

Telesfor R. Gonzales	Chairman
Bernadine DeHerrera	Vice-Chair
Elaine Trujillo	Secretary/Treasurer
John S. Painter	Member
Trudy Abrams	Member

ADMINISTRATIVE OFFICIAL

Christine Dimas	General Manager
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Board of Directors El Prado Water & Sanitation District
El Prado, New Mexico
and
Wayne Johnson, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the major fund, and the budgetary comparison of El Prado Water & Sanitation District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the major fund, and the budgetary comparison of the District, as of June 30, 2017, and the respective changes in financial position, where applicable cash flows thereof 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 4-8, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 34, the Schedule of the District's Contributions on page 34, and the notes to the required supplementary information on page 35 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

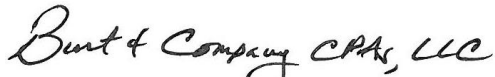
Our audit was conducted for the purpose of forming opinions on the financial statements and budgetary comparison that collectively comprise the District's basic financial statements. The other schedules as required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the financial statements. The other schedules 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 other schedules as required by 2.2.2 NMAC are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other

Wayne Johnson, State Auditor and
El Prado Water & Sanitation District
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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 internal control over financial reporting or 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.

A handwritten signature in cursive script that reads "Burt & Company CPAs, LLC". The signature is written in black ink and is positioned above the printed name of the firm.

Burt & Company CPAs, LLC

December 14, 2017

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Management's Discussion and Analysis
June 30, 2017

As management of the El Prado Water & Sanitation District (the 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 ending June 30, 2017. We encourage readers to consider the financial information presented here in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights

The financial statements, which follow the Management's Discussion and Analysis, provide those significant key financial highlights for fiscal year 2017 as follows:

- In the Statement of Net Position, the District's total net position as of June 30, 2017 amounted to \$8,118,094.
- The District's total net position increased by \$197,913. The District refinanced all its long-term debt other than loans payable to the New Mexico Finance Authority (NMFA) at 0.00% interest in August 2016, as a result, the District paid less interest in the current year.
- The District's total liabilities increased by \$7,373 during the current year.

Overview of 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 are comprised of: 1) government-wide financial statements, 2) notes to the financial statements.

Government-wide financial 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 fiscal year reported. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Management's Discussion and Analysis
 June 30, 2017

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 beginning on page 14 of these financial statements.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The District's assets exceed liabilities and deferred inflow of resources by \$8,118,094 as of June 30, 2017.

The following table presents the condensed net position as of June 30, 2017:

	2017 Business-	2016 Business-
Assets	type Activities	type Activities
Current and other assets	\$ 704,917	505,165
Capital assets, net of accumulated depreciation	<u>9,905,228</u>	<u>9,941,185</u>
Total assets	10,610,145	10,446,350
Deferred outflows of resources	<u>75,992</u>	<u>26,385</u>
Total Assets and Deferred Outflows	\$ <u>10,686,137</u>	<u>10,472,735</u>
Liabilities		
Current liabilities	\$ 174,400	934,460
Long-term liabilities outstanding	<u>2,382,481</u>	<u>1,615,048</u>
Total liabilities	2,556,881	2,549,508
Deferred inflows of resources	<u>11,162</u>	<u>64,676</u>
Total Liabilities and Deferred Inflows	2,568,043	2,614,184
Net Position		
Net investments in capital assets	7,954,583	8,138,888
Unrestricted	<u>163,511</u>	<u>(280,337)</u>
	<u>8,118,094</u>	<u>7,858,551</u>
Total liabilities, deferred inflows, and net position	\$ <u>10,686,137</u>	<u>10,472,735</u>

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

STATE OF NEW MEXICO
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Management's Discussion and Analysis
June 30, 2017

As of June 30, 2017 the District had current and other assets of \$704,917, an increase of \$199,752 over the prior year balance of \$505,165.

Changes in net position. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017:

	<u>2017 Business-</u>	<u>2016 Business-</u>
Revenues	type Activities	type Activities
Operation revenues:		
Charges for service	\$ 338,852	385,016
Gross receipt tax	41,350	41,504
Miscellaneous	135,796	511,211
Non-operating revenues:		
Property taxes	152,721	161,455
Private grants	50,000	-
Intergovernmental	69,094	60,906
State funded by Abeyta settlement	50,693	-
Legal fee settlement	94,764	-
Interest income	182	168
Total revenues	<u>933,452</u>	<u>1,160,260</u>
Expenses		
Advertising	2,727	1,934
Dues and registration	3,437	2,725
Debt service interest	92,758	79,034
Debt service administrative costs	95,856	-
Depreciation	206,596	202,199
Employee salaries	114,347	111,044
Insurance	10,804	11,727
Miscellaneous fees	4,205	4,213
Mileage and per diem	2,265	1,364
Office expenses	9,557	4,558
Other contractual services	52,261	180,252
Payroll related expenses	44,229	41,370
Rent	2,052	4,497
Repair and maintenance	10,267	5,673
Utilities	28,042	23,592
Water system expense	15,410	12,687
Sewer system expense	40,726	34,109
Total expenses	<u>735,539</u>	<u>720,978</u>
Increase in Net Position	197,913	439,282
Net Position, beginning of year, as previously stated	7,858,551	7,419,269
Prior period adjustment	61,630	-
Net Position, beginning, as restated	<u>7,920,181</u>	<u>-</u>
Ending Net Position	<u>\$ 8,118,094</u>	<u>7,858,551</u>

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Management's Discussion and Analysis
June 30, 2017

Long-term liabilities increased by \$767,433. Current liabilities decreased by \$760,060, with an ending balance of \$174,400. At June 30, 2017, the Net Position of the District totaled \$8,118,094 compared with the prior year Net Position, as restated of \$7,920,181.

Revenues for the year ending June 30, 2017 decreased from the prior year by \$226,808. The main area of decrease was miscellaneous revenue, which was in the amount of \$375,415. Total expenses increased by \$14,561, which includes \$206,596 of depreciation expense and \$92,758 of debt service interest.

Financial Analysis of the District's Funds

As, noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Highlights. 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 & 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.

Capital Assets and Debt Administration

Capital Assets. El Prado Water & Sanitation District's capital assets for its business-type activities as of June 30, 2017 amount to \$9,905,228 (net of accumulated depreciation). Capital assets as of June 30, 2017 and 2016, consist of:

	2017 Business-	2016 Business-
	type Activities	type Activities
Land	\$ 1,016,062	1,016,062
Construction in progress	50,693	-
Water rights	2,992,457	2,992,457
Building and building improvements	1,312,646	1,312,646
Equipment, furniture and fixtures, vehicles	220,709	208,379
Utility plant in service	6,616,015	6,508,399
Total Capital assets	12,208,582	12,037,943
Accumulated depreciation	(2,303,354)	(2,096,758)
Capital assets, net of accumulated depreciation	\$ 9,905,228	9,941,185

For financial statement presentation, all depreciable capital assets were depreciated from acquisition date. See note 6 on pages 22-23 in the accompanying Notes to the Financial Statements for further information regarding capital assets.

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Management's Discussion and Analysis
 June 30, 2017

Debt Administration. At the end of the current fiscal year, the District had total long-term obligations outstanding of \$2,324,535, and consists of the following:

	<u>2017 Business-</u>	<u>2016 Business-</u>
	<u>type Activities</u>	<u>type Activities</u>
USDA 4.25% (Looping Line1)	\$ -	44,157
USDA 4.25% (WR)	-	214,646
NMFA Loan 0% (WTR-3)	25,621	30,707
NMFA Loan 0% (WTR-4)	19,295	23,125
Centinel 6.25% Feb 2007	-	453,076
NMFA Loan 0% (WTR-8) June 2007	23,237	25,787
NMFA Loan 0% (WTR-9)	226,342	246,612
NMFA Loan 0% (WTR-11)	107,893	116,739
Promissory Note- Coppler Law Firm 3%	-	211,822
Promissory Note- Anthanor LLC 5%	-	21,050
Promissory Note- Perovich 6%	-	175,000
Promissory Note- Weimer Properties 5%	-	239,655
NM Bank & Trust Bond Payable 4.25%	1,915,417	-
Compensated absences	<u>6,730</u>	<u>6,036</u>
Total	\$ <u>2,324,535</u>	<u>1,808,412</u>

See note 7 on pages 23-25 in the accompanying Notes for the Financial Statements for further information regarding the 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 2016-2017. The El Prado Water & 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 information should be addressed to Christine Dimas, General Manager, El Prado Water & Sanitation District, P.O. box 1110, El Prado, NM 87529.

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Statement of Net Position
 June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$	494,705
Investments - Certificate of Deposit		45,178
Accounts receivable - customers		44,774
Due from other governments - property taxes		62,370
Due from other governments - gross receipts taxes		4,338
Due from other governments - TASP		50,693
Prepaid expenses		2,859
		704,917
Total current assets		704,917

Capital assets:

Land		1,016,062
Construction in progress		50,693
Water rights		2,992,457
Building & Building improvements		1,312,646
Equipment, Furniture & Fixtures, and Vehicles		220,709
Utility plant in service		6,616,015
Less accumulated depreciation		(2,303,354)
		9,905,228
Net capital assets		9,905,228

Deferred outflows of resources

75,992

Total assets and deferred outflows of resources

\$ 10,686,137

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

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Statement of Net Position (continued)
 June 30, 2017

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Current Liabilities:

Accounts payable	\$	51,028
Accrued interest		6,558
Accrued liabilities		4,125
Accrued compensated absences		6,730
Due to other governments		1,282
Current portion of long-term debt		<u>104,677</u>
Total current liabilities		174,400

Non-current liabilities:

Notes payable		361,711
Bonds payable		1,851,417
Net pension liability		<u>169,353</u>
Total long-term liabilities		<u>2,382,481</u>
Total liabilities		2,556,881

Deferred inflows of resources		<u>11,162</u>
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Total liabilities and deferred inflows of resources		2,568,043
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Net position

Net investment in capital assets		7,954,583
Unrestricted		<u>163,511</u>
Total net position		<u>8,118,094</u>

Total liabilities, Deferred inflows of resources and net position	\$	<u><u>10,686,137</u></u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues:	
Commercial fees	\$ 181,313
Residential fees	157,539
Total operating revenues	<u>338,852</u>
Expenditures:	
Advertising	2,727
Bank fees	227
Debt service interest	92,758
Debt service administrative costs	95,856
Depreciation	206,596
Dues and subscriptions	3,437
Insurance	10,804
Mill levy administrative fees	1,520
Office expenses	9,557
Office repairs & maintenance	10,267
Office utilities	7,846
Other contractual services	52,261
Payroll	114,347
Payroll related expenses	44,229
Postage	2,458
Rent expense	2,052
Sewer system expense	40,726
System utilities	20,196
Vehicle expense	2,265
Water system expense	15,410
Total expenditures	<u>735,539</u>
Operating income (loss)	<u>(396,687)</u>
Non-operating revenues:	
Property taxes	152,721
Taos Abeyta settlement	50,693
Gross receipts tax revenues	41,350
Rental income	39,877
Miscellaneous	95,919
Legal fee settlement	94,764
Private grants	50,000
Intergovernmental - State	69,094
Interest income	182
Non-operating revenue	<u>594,600</u>
Net Income (Loss)	<u>197,913</u>
Net Position, beginning of year, as previously stated	7,858,551
Prior period adjustment	61,630
Net Position, beginning, as restated	<u>7,920,181</u>
Net Position, at end of year	<u>\$ 8,118,094</u>

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

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities:		
Cash received from customers	\$	408,085
Cash received from others		230,560
Cash paid to employees and for employee benefits		(217,237)
Cash paid to suppliers		(793,730)
Net cash flows used by operating activities		<u>(372,322)</u>
Cash flows from noncapital financing activities:		
Cash received from collection of taxes		267,389
Cash received from operating grants		50,000
Proceeds from issuance of debt		647,527
Payments on debt outstanding		(667,189)
Net cash flows provided by noncapital financing activities		<u>297,727</u>
Cash flows from capital financing activities:		
Cash received from grantors		69,094
Proceeds from issuance of debt		1,327,473
Purchase of capital assets		(170,639)
Payments of principal and interest on debt		(921,152)
Net cash flows provided by capital financing activities		<u>304,776</u>
Cash flows from investing activities:		
Cash received for interest		182
Purchase of investments		(45,178)
Net cash flows used by operating activities		<u>(44,996)</u>
Net increase in cash and cash equivalents		185,185
Cash and cash equivalents, beginning of year		<u>309,520</u>
Cash and cash equivalents, end of year	\$	<u>494,705</u>
Reconciliation of change in operating income to net cash used by operating activities:		
Operating income (loss)	\$	(396,687)
Adjustment to reconcile of change in operating income to net cash provided by operating activities:		
Depreciation		206,596
Interest expense		92,758
Legal fee settlement		94,764
Rents		39,877
Misc income		95,919
(Decrease) Increase in:		
Investments		
Accounts receivable		69,233
Prepaid expenses		383
Deferred outflows		(49,607)
Increase (Decrease) in:		
Accounts payable		(518,174)
Accrued expenses		(3,606)
Deferred inflows		(53,514)
Net pension liability		49,042
Accrued compensated absences		694
Net cash used by operating activities	\$	<u>(372,322)</u>

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

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

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.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity 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, 2017.

B. Business-Type Activities

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Revenues, Expenses, 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 Revenues, Expenses, and Changes in Net Position 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 Revenues, Expenses, and Changes in Net Position 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

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

B. Business-Type Activities (continued)

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*.

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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

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.

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.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

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

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 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, 2017 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 the proprietary financial statements.

Capital Assets: Capital assets, which include property, plant, computer software, and equipment, are reported in the applicable proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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.

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Notes to Financial Statements
 June 30, 2017

1. Summary of Significant Accounting Policies (continued)

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

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.

E. Assets, Liabilities, and Net Position or Equity

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	5-25
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 Statement of Net Position.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statement of Net Position. Bond premiums and discounts, 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: The District’s net position is classified as follows:

Net Investment in Capital Assets. This represents the District’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of investment in capital assets, net of related debt.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities, and Net Position or Equity (continued)

Unrestricted Net Position. Unrestricted net position represent resources derived from water and sanitation revenues. These resources are used for general operations of the District and may be used at the discretion of the Governing Board to meet current expenses for any purposes.

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.

F. 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.

G. Advertising

Advertising costs are expenses as incurred. Advertising costs for the year ended June 30, 2017 were \$2,727.

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.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

2. Stewardship, Compliance, and Accountability (continued)

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 expenditures 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.

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, 2017.

Deposits of funds may be made in interest or non-interest bearing 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 priced on United States treasury bills of the same maturity on the day of deposit.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

3. Deposits and Investments (continued)

Excess of funds may be temporarily invested in securities which are issued by the State of New Mexico 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 of collateral pledged by depository on page 37 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 owed 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, 2017, were in certificate of deposit, 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 maturity of less than one year.

NM State Statutes required collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half the amount in excess of FDIC coverage on deposit with the institution. The schedule listed below discloses the State of New Mexico, Office of the State Auditor's requirements on reporting the insured portion of the deposits.

Deposits

	US Bank	Centinel Bank of Taos	New Mexico Bank & Trust
Total amounts of deposits	\$ 185,133	255,636	125,430
FDIC coverage	<u>(185,133)</u>	<u>(250,000)</u>	<u>(125,430)</u>
Total uninsured public funds	-	5,636	-
Collateral requirement (50% of uninsured public funds)	<u>-</u>	<u>2,818</u>	<u>-</u>
Pledged collateral held by pledging bank's trust department or agent but not in the agency's name	<u>-</u>	<u>(50,000)</u>	<u>-</u>
Total under (over) collateralized	<u>-</u>	<u>(47,182)</u>	<u>-</u>
Custodial credit risk- Uninsured deposits	<u>\$ -</u>	<u>-</u>	<u>-</u>

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

3. Deposits and Investments (continued)

Custodial Credit Risk – Bank. 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. As of June 30, 2017, \$5,636 of the District’s bank balance of \$566,199 was exposed to custodial credit risk.

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.

Investments

As of June 30, 2017 the District had the following investments and maturities:

Investment Type	Fair value	Investment maturities greater than 1 year
Certificate of Deposit	\$ <u>45,178</u>	<u>45,178</u>

Reconciliation of Cash and Temporary Investments

Business-type funds - Balance Sheet

Cash and cash equivalents per Statement of Net Position	\$	494,705
Add outstanding checks and other reconciling items		26,516
Less petty cash		(200)
Bank balance of deposits	\$	521,021

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have an investment policy for custodial credit risk. The District’s investments are in certificates of deposits. The custodial credit risk for the certificates of deposits is contemplated in *custodial risk – cash*.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2017:

- Certificates of Deposit \$45,178 are valued using cost which approximates market price (Level 1 inputs)

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

4. Receivables

Receivables as of June 30, 2017, are as follows:

Property taxes	\$	62,370
Customer receivables		44,774
Gross receipts taxes		4,338
Other receivables		<u>50,693</u>
 Total	 \$	 <u>162,175</u>

The above receivables are deemed 100% collectible.

5. Prepaid Expenses

The District has insurance policies that are paid in advance and are expended monthly. There was \$2,859 of prepaid insurance at June 30, 2017.

6. Capital Assets

A summary of changes in capital assets is as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Land	\$ 1,016,062	-	-	1,016,062
Construction in progress	-	50,693		50,693
Water rights	2,992,457	-	-	2,992,457
Building and building improvements	1,312,646	-	-	1,312,646
Equipment, furniture, fixtures, vehicles	208,379	12,330	-	220,709
Utility plant in service	<u>6,508,399</u>	<u>107,616</u>	<u>-</u>	<u>6,616,015</u>
Total capital assets	<u>12,037,943</u>	<u>170,639</u>	<u>-</u>	<u>12,208,582</u>
 Less accumulated depreciation				
Building and building improvements	(108,904)	(32,816)	-	(141,720)
Equipment, furniture, fixtures, vehicles	(49,223)	(8,380)	-	(57,603)
Utility plant in service	<u>(1,938,631)</u>	<u>(165,400)</u>	<u>-</u>	<u>(2,104,031)</u>
Total accumulated depreciation	<u>(2,096,758)</u>	<u>(206,596)</u>	<u>-</u>	<u>(2,303,354)</u>
 Total capital assets, net	 \$ <u>9,941,185</u>	 <u>(35,957)</u>	 <u>-</u>	 <u>9,905,228</u>

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

6. Capital Assets (continued)

The district recorded the following depreciation expense for the year ended June 30, 2017:

Building and building improvements	\$ 32,816
Equipment, furniture, fixtures, vehicles	8,380
Utility plant in service	<u>165,400</u>
Total depreciation expense	<u>\$ 206,596</u>

7. Long-term Debt

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the government-wide statement of Net Position:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due within one year
USDA/RUS 4.25 (LL1)	\$ 44,157	-	(44,157)	-	-
USDA/RUS 4.25 (WR)	214,646	-	(214,646)	-	-
NMFA Loan 0% (WTR-3)	30,707	-	(5,086)	25,621	5,099
NMFA Loan 0% (WTR-4)	23,125	-	(3,830)	19,295	3,840
Centinel Bank 6.25%	453,076	-	(453,076)	-	-
NMFA Loan 0% (WTR-8)	25,787	-	(2,550)	23,237	2,550
NMFA Loan 0% (WTR-9)	246,612	-	(20,270)	226,342	20,320
NMFA Loan 0% (WTR-11)	116,739	-	(8,846)	107,893	8,868
Promissory Note- Coppler Law Firm 3%	211,822	-	(211,822)	-	-
Promissory Note- Anthanor LLC 5%	21,050	-	(21,050)	-	-
Promissory Note- Weimer Prop 5%	239,655	-	(239,655)	-	-
Promissory Note- Perovich 6%	175,000	-	(175,000)	-	-
NM Bank & Trust Bond Payable 4.25%	-	1,975,000	(59,583)	1,915,417	64,000
Subtotal	1,802,376	1,975,000	(1,459,571)	2,317,805	104,677
Compensated Absences	6,036	8,312	(7,618)	6,730	6,730
Total long-term debt	<u>\$ 1,808,412</u>	<u>1,983,312</u>	<u>(1,467,189)</u>	<u>2,324,535</u>	<u>111,407</u>

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Notes to Financial Statements
 June 30, 2017

7. Long-term Debt (continued)

The annual requirement to amortize the NMFA, 0% WTR-3 as of June 30, 2017, including admin fees are as follows:

Fiscal Year	Principal	Administrative Fee	Total
2018	\$ 5,099	65	5,164
2019	5,111	51	5,162
2020	5,124	39	5,163
2021	5,137	26	5,163
2022	5,150	13	5,163
Total	\$ 25,621	194	25,815

The annual requirement to amortize the NMFA, 0% WTR-4 as of June 30, 2017, including admin fees are as follows:

Fiscal Year	Principal	Administrative Fee	Total
2018	\$ 3,840	48	3,888
2019	3,849	39	3,888
2020	3,859	29	3,888
2021	3,869	19	3,888
2022	3,878	10	3,888
Totals	\$ 19,295	145	19,440

The annual requirement to amortize the NMFA Water Trust Board (WTB) Loan, 0% WTR-8 as of June 30, 2017, including admin fees are as follows:

Fiscal Year	Principal	Administrative Fee	Total
2018	\$ 2,556	58	2,614
2019	2,563	52	2,615
2020	2,569	45	2,614
2021	2,575	39	2,614
2022	2,582	32	2,614
2023-2027	10,392	65	10,457
Totals	\$ 23,237	291	23,528

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

7. Long-term Debt (continued)

The annual requirement to amortize the NMFA Water Trust Board (WTB) Loan, 0% WTR-9 as of June 30, 2017, including admin fees are as follows:

Fiscal Year	Principal	Administrative Fee	Total
2018	\$ 20,320	566	20,886
2019	20,371	515	20,886
2020	20,422	464	20,886
2021	20,473	413	20,886
2022	20,525	362	20,887
2023-2027	103,397	1,038	104,435
2028-2029	20,834	52	20,886
Totals	\$ <u>226,342</u>	<u>3,410</u>	<u>229,752</u>

The annual requirement to amortize the NMFA Water Trust Board (WTB) Loan, 0% WTR-11 as of June 30, 2017, including admin fees are as follows:

Fiscal Year	Principal	Administrative Fee	Total
2018	\$ 8,868	270	9,138
2019	8,890	248	9,138
2020	8,912	225	9,137
2021	8,935	203	9,138
2022	8,957	181	9,138
2023-2027	45,123	566	45,689
2028-2029	18,208	69	18,277
Total	\$ <u>107,893</u>	<u>1,762</u>	<u>109,655</u>

The annual requirements to amortize the Note Payable due to New Mexico Bank & Trust, 4.25% as of June 30, 2017, including interest and payments are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 65,000	81,254	146,254
2019	69,583	78,371	147,954
2020	74,583	75,531	150,114
2021	75,000	66,068	141,068
2022	79,583	68,730	148,313
2023-2027	453,332	248,208	701,540
2028-2032	548,332	180,915	729,247
2033-2037	550,004	51,016	601,020
Total	\$ <u>1,915,417</u>	<u>850,093</u>	<u>2,765,510</u>

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

Pledged Revenues for Long-Term Debt

The District has pledged portions of future revenues to repay the loans to the New Mexico Finance Authority and New Mexico Bank & Trust noted above. The loans are payable solely from these pledged sources of revenues. The pledged revenues are projected to be sufficient to produce enough funds to meet the debt service obligations. The District intends to annually appropriate funds sufficient to make all payments required.

Loan Description	Use of Proceeds	Revenue Pledged			Current Year		
		Type	Percent of Total Debt Service	Term of Pledge	Remaining Principal and Interest	Principal and Interest Paid	Pledged Revenue Received
NMFA Loan (WTR-3)	Acquisition of equipment for a well and refurbishing of a water storage tank for the District's joint water and wastewater utility system.	Gross revenues of the District's joint water and wastewater utility system, less costs of operation and maintenance.	130%	2002 - 2022	25,621	5,086	197,913
NMFA Loan (WTR-4)	Refunding, redeeming, refinancing and paying in full on the prior redemption date of June 1, 1999 the District's outstanding Joint Water and Sewer System Revenue Bonds, Series 1984 maturing on and after December 1, 1999.	That portion of the property tax revenue derived from the ad valorem taxes imposed on all property in the El Prado Water and Sanitation District necessary to pay the Loan Agreement Payments promptly when due.	130%	2002 - 2022	19,440	3,830	152,721
NMFA-WTB Loan (WTR-8)	The Project is made up of completion of the infrastructure for its new Well #3 drilled in 2001 so that the well can be put into production through equipping the well, building two equipment houses and building a water transmission line to the storage tanks of the District, all as more specifically described in the Application and in the final plans and specifications for the Project approved by the Water Trust Board and the NMFA as provided by this agreement.	The system revenues of the District.	100%	2007 - 2027	23,237	2,550	338,852
NMFA WTB Loan (WTR-9)	The Project is the costs of completing the infrastructure for District's Well #3 and the remaining transmission line between Well #3 and the District's storage tanks, purchasing real property adjacent to the District's existing storage tanks, building a new 500,000 gallon water storage tank and completing additional master looping lines and upgrades to connect Phases II and III of the District's Transmission Line Project into the District's master looping system, all as more specifically described in the Application and in the final plans and specifications for the Project approved by the Water Trust Board and the NMFA.	Net system revenues for the District's water and sanitation system.	100%	2009 - 2029	226,342	20,270	338,852
NMFA WTB Loan (WTR-11)	The Project is the costs of completing the infrastructure for District's Well #3 and the remaining transmission line between Well #3 and the District's storage tanks, purchasing real property adjacent to the District's existing storage tanks, building a new 500,000 gallon water storage tank and completing additional master looping lines and upgrades to connect Phases II and III of the District's Transmission Line Project into the District's master looping system, all as more specifically described in the Application and in the final plans and specifications for the Project approved by the Water Trust Board and the NMFA.	Net system revenues for the District's water and sanitation system.	100%	2010 - 2029	107,893	8,846	338,852
NM Bank & Trust Bond Payable	Refinancing the costs of planning, design, and construction of water line, water production and storage facility and to facilitate the purchase, transfer and establishment of the lawful right to utilize water rights.	Net system revenues for the District's water and sanitation system.	100%	2016 - 2037	2,765,510	136,624	338,852

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

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.

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.

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.

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 requirements of benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2016 available at

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

11. Pension Plan – Public Employees Retirement Association (continued)

http://www.pera.state.nm.us/pdf/AuditFinancial/366_Public_Employees_Retirement_Association_2016.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 FY16 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 21 through 31 of the PERA FY16 annual audit report at

http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2016.pdf.

The PERA coverage options that apply to the District are: General Division. Statutorily required contributions to the pension plan from the District were \$8,650 and employer paid member benefits that were “picked up” by the employer were \$0 for the year ended June 30, 2017.

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, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2016.

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, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 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, 2017

11. Pension Plan – Public Employees Retirement Association (continued)

For PERA Fund Division – the District’s General Division, at June 30, 2017, the District reported a liability of \$169,353 for its proportionate share of the net pension liability. At June 30, 2016, the District’s proportion was 0.0106 percent, which was a decrease of 0.0012 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized PERA Fund – General, pension expense of \$17,503. At June 30, 2017, 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	\$ 8,461	(1,653)
Changes of assumptions	9,931	(28)
Net difference between projected and actual earnings on pension plan investments	31,161	-
Changes in proportion and differences between the District contributions and proportionate share of contributions	16,601	(9,481)
District contributions subsequent to the measurement date	9,838	-
Total	\$ 75,992	(11,162)

\$75,992 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 14,814
2019	14,814
2020	17,755
2021	7,609
2022	-
Thereafter	-

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

11. Pension Plan – Public Employees Retirement Association (continued)

Actuarial assumptions. The total net pension liability is based on actuarial valuations performed as of June 30, 2015. The pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016 using generally accepted actuarial principles. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

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

The 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
Global Equity	43.50%	7.39%
Risk Reduction and Mitigation	21.50%	1.79%
Credit Oriented Fixed Income	15.00%	5.77%
Real Assets	20.00%	7.35%
Total	100.00%	

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Notes to Financial Statements
 June 30, 2017

11. Pension Plan – Public Employees Retirement Association (continued)

The rate is 7.25% for the first 10 years (select period) and 7.75% for all other years (ultimate). The equivalent blended rate is 7.48% and will be used to measure the total pension liability. 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 7.48% 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.

The following presents the net pension liability of PERA Fund, calculated using the discount rate of 7.48%, as well as what PERA Fund’s net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.48%) or 1 percentage point higher (8.48%) than the single discount rate.

		1%	Current Single Rate Assumption	1%
		Decrease	Rate	Increase
		(6.48%)	(7.48%)	(8.48%)
PERA Fund Division – General				
District’s proportionate share of the net pension liability	\$	100,395	169,353	252,490

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the pension plan. At June 30, 2017, the District had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2017.

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.

13. 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.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2017

14. Related Party Transactions

The District paid \$3,752 in cleaning costs to True Vine Cleaning which is owned by family of a current employee.

The District paid \$208 for project labor costs to Painter Construction, which is owned by a member on the District's Board of Directors.

15. 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.

16. Subsequent Events

El Prado Water & Sanitation District has evaluated subsequent events through December 14, 2017, which is the date the financial statements were dated.

On August 15, 2017, the District entered into an agreement to purchase 9.6 acres of land in Las Colonias, Taos County area for \$240,000 to be paid over the course of ten years at 5% interest.

17. 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

18. Prior Period Adjustment

This relates to the property taxes receivable that were shown as deferred inflows of resources in the prior year as would be the treatment in governmental funds, but as this is a single proprietary fund entity, and or full accrual, the total amount is recognized as revenue and related receivable at the time levied.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Enterprise Fund
Statement of Revenues and Expenditures
Budget (Non-GAAP Budgetary Basis) and Actual: Enterprise Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances
	Original	Final		Favorable
				Final to Actual
Revenues:				
Commercial fees	\$ 240,000	181,313	181,313	-
Residential fees	140,000	157,539	157,539	-
Total revenues	<u>380,000</u>	<u>338,852</u>	<u>338,852</u>	<u>-</u>
Expenditures:				
Advertising	3,000	2,727	2,727	-
Bank charges/fees	125	227	227	-
Debt service interest	79,712	128,770	92,758	36,012
Debt service administration costs	1,107	95,856	95,856	-
Dues & subscriptions	5,520	3,328	3,437	(109)
Insurance	13,050	13,260	10,804	2,456
Miscellaneous expense	1,535	(69,585)	3,978	(73,563)
Office expenses	10,750	8,469	9,557	(1,088)
Office maintenance	10,500	10,267	10,267	-
Office utilities	9,075	7,847	7,846	1
Other contractual services	79,500	56,749	52,261	4,488
Payroll expenses	159,770	151,836	151,025	811
Rental expenses	4,900	2,052	2,052	-
Sewer system expense	49,500	36,969	40,726	(3,757)
System utilities	18,600	19,579	20,196	(617)
Vehicle expenses	3,700	2,265	2,265	-
Water system expense	65,600	48,855	15,410	33,445
Total expenditures	<u>515,944</u>	<u>519,471</u>	<u>521,392</u>	<u>(1,921)</u>
Operating income	<u>(135,944)</u>	<u>(180,619)</u>	<u>(182,540)</u>	<u>(1,921)</u>
Non-operating revenues:				
Property taxes	153,529	151,981	152,721	740
Taos Abeyta Settlement	-	46,796	50,693	3,897
Gross receipts	38,000	37,012	41,350	4,338
Rent	40,500	37,911	39,877	1,966
Miscellaneous	1,000	100,855	95,919	(4,936)
Legal fee settlement	-	-	94,764	94,764
Finance charges	6,000	5,388	-	(5,388)
State grants	-	119,094	69,094	(50,000)
Private grants	-	50,000	50,000	-
Interest income	-	-	182	182
Total non-operating income	<u>239,029</u>	<u>549,037</u>	<u>594,600</u>	<u>45,563</u>
Revenues and other financing sources (uses) over (under) expenditures	\$ <u>103,085</u>	<u>368,418</u>	412,060	<u>43,642</u>
Unbudgeted revenues and expenses:				
Depreciation expense			(206,596)	
GASB 68 pension expense			(7,551)	
Loss on disposition of assets			-	
GAAP change in net position		\$	<u>197,913</u>	

**PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Required Supplementary Information
 June 30, 2017

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Public Employees Retirement Association (PERA) Pension Plan
 General Pension Fund
 Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0106%	0.0118%	0.0089%
District's proportionate share of the net pension liability	\$ 169,353	120,311	69,430
District's covered-employee payroll	\$ 105,863	90,580	109,618
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	62.51%	75.29%	63.34%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	81.29%

* These schedules are intended to present 10 years of trending history. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 Public Employees Retirement Association (PERA) Pension Plan
 General Pension Fund
 Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 10,110	8,660	9,306
Less: Overpayment in 2016	(272)	-	-
Contributions in relation to the contractually required	<u>(9,838)</u>	<u>(8,660)</u>	<u>(9,306)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 105,863	90,580	109,618
Contribution as a percentage of covered-employee payroll	9.55%	9.56%	8.49%

* These schedules are intended to present 10 years of trending history. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Required Supplementary Information
June 30, 2017

Notes to Required Supplementary Information

For the Year Ended June 30, 2017

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2016.pdf. Changes of assumptions.

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at <http://www.nmpera.org/financial-overview/retirement-fund-valuation-reports/6-30-2016-PERA-valuation-Report-FINAL.pdf>. The summary of Key Findings for the PERA Fund on page 2. For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Schedule of Collateral Pledged by Depository
 For Public Fund
 June 30, 2017

Name of Depository	Description of Pledged Collateral	Fair market value June 30, 2017	Name of Custodian
US Bank	No pledged collateral due to adequate FDIC insurance coverage	\$ -	
Centinel Bank of Taos	Lea County School with maturity 6/15/20 and par value of \$50,000. CUSIP # 521513 AWL	50,000	TIB
New Mexico Bank & Trust	No pledged collateral due to adequate FDIC insurance coverage	-	
	Total	\$ <u>50,000</u>	

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Schedule of Deposits and Investments
 June 30, 2017

<u>Bank Account Type/Name</u>	<u>US Bank</u>	<u>Centinel Bank of Taos</u>	<u>New Mexico Bank & Trust</u>	<u>Totals</u>
Checking - Non-interest bearing	\$ 139,955	255,636	125,430	521,021
CD	<u>45,178</u>	<u>-</u>	<u>-</u>	<u>45,178</u>
Total on deposit	\$ <u>185,133</u>	<u>255,636</u>	<u>125,430</u>	<u>566,199</u>
Reconciling items				\$ (26,516)
Petty cash				<u>200</u>
Reconciled cash and investments, June 30, 2017				\$ <u>539,883</u>

STATE OF NEW MEXICO
 EL PRADO WATER & SANITATION DISTRICT
 Cash Reconciliation
 June 30, 2017

	US Bank	Centinel Bank of Taos	New Mexico Bank & Trust	Totals
Bank balance end of year	\$ 139,955	255,636	125,430	521,021
Deposits in transit	-	-	-	-
Outstanding checks	-	(16,530)	(9,986)	(26,516)
Cash, June 30, 2017	139,955	239,106	115,444	494,505
Petty cash				200
Total cash, June 30, 2017			\$	494,705

COMPLIANCE SECTION

INDEPENDENT AUDITORS' 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*

Wayne Johnson, State Auditor
and
The Governing Board and Management of
El Prado Water & Sanitation District
El Prado, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the major fund and the budgetary comparison of the major fund of the El Prado Water & Sanitation District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2017.

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 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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


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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results of that testing, and not to provide an opinion on the effectiveness of the 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Burt & Company CPAs, LLC

December 14, 2017

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Schedule of Findings and Responses
June 30, 2017

Prior Year Audit Findings

2006-001 No certified procurement officer (Resolved)

Findings-Financial Statement Audit

None

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Other Disclosures
June 30, 2017

Auditor Prepared Financial Statements

The District has the capability of understanding and accepting responsibility for its own GAAP-basis financial statements, however, the District's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

Exit Conference

The contents of this report were discussed on November 22, 2017. The following individuals were in attendance.

El Prado Water & Sanitation District

Telesfor R. Gonzales	Chairman
John S. Painter	Board Member
Christine Dimas	General Manager

Burt & Company CPAs, LLC

Ronald E. Schranz, CPA, CVA, Partner
Christopher J. Schmitz, CPA, CGMA (via telephone)