



State of  
New Mexico  
City of Española

Annual Financial Report  
For the Year Ended June 30, 2017



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**STATE OF NEW MEXICO**  
City of Española  
Annual Financial Report  
June 30, 2017  
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**STATE OF NEW MEXICO**

City of Española

Official Roster

June 30, 2017

<u>Name</u>		<u>Title</u>
	<b><u>City Council</u></b>	
Alice A. Lucero		Mayor
Adrianna Ortiz		Mayor Pro Tem
Dennis Tim Salazar		District 1 Councilor
Pedro Valdez		District 1 Councilor
Michelle R. Martinez		District 2 Councilor
Peggy Sue Martinez		District 2 Councilor
John Hernandez		District 3 Councilor
Manuel J. Martinez		District 3 Councilor
Robert Seeds		District 4 Councilor
	<b><u>Administration</u></b>	
Mark Trujillo		City Manager
Anna Squires		City Clerk
Jessica Ortiz		Administrative Service Director

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Wayne Johnson  
New Mexico State Auditor  
The City Council  
City of Española  
Española, New Mexico

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the General Fund and the major special revenue fund of the City of Española (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the City'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 misstatements, 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 auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Española, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require Schedules I, II, and the notes to the required supplementary information 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*

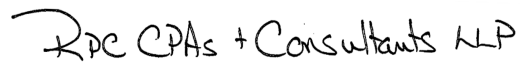
Our audit was conducted for the purpose of forming opinions on the City's financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Supporting Schedules III through V required by section 2.2.2 NMAC are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the Schedule of Expenditures of Federal Awards and Supporting Schedules III through V required by section 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 combining and individual nonmajor fund financial statements, the Schedule of Expenditures of Federal Awards and Supporting Schedules III through V required by section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



RPC CPAs + Consultants, LLP  
Albuquerque, New Mexico  
December 12, 2017

## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**

City of Española

Statement of Net Position

June 30, 2017

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 7,051,835	\$ 2,479,892	\$ 9,531,727
Investments	1,956,655	58,929	2,015,584
Receivables:			
Property taxes	200,418	-	200,418
Other receivables	1,999,968	72,221	2,072,189
Customer receivables, net	-	1,065,862	1,065,862
Internal balances	387,220	(387,220)	-
<i>Total current assets</i>	<u>11,596,096</u>	<u>3,289,684</u>	<u>14,885,780</u>
Noncurrent assets			
Restricted cash and cash equivalents	389,877	-	389,877
Restricted investments	826,999	532,065	1,359,064
Capital assets	35,903,969	16,743,256	52,647,225
Less: accumulated depreciation	(21,262,317)	(6,964,604)	(28,226,921)
<i>Total noncurrent assets</i>	<u>15,858,528</u>	<u>10,310,717</u>	<u>26,169,245</u>
<b>Deferred outflows</b>			
Employer contributions subsequent to the measurement date	605,224	96,856	702,080
Net difference between expected and actual investment earnings	1,757,752	281,051	2,038,803
Difference between expected and actual experience	626,498	101,890	728,388
Changes of assumption	668,237	121,352	789,589
Changes in proportion	221,153	33,021	254,174
<i>Total deferred outflows</i>	<u>3,878,864</u>	<u>634,170</u>	<u>4,513,034</u>
<i>Total assets and deferred outflows</i>	<u>\$ 31,333,488</u>	<u>\$ 14,234,571</u>	<u>\$ 45,568,059</u>

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

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 250,784	\$ 180,490	\$ 431,274
Accrued payroll	232,865	42,281	275,146
Accrued interest payable	43,143	58,165	101,308
Bonds payable	14,800	20,370	35,170
Loans and capital lease payable	559,871	553,682	1,113,553
Accrued compensated absences	425,269	70,613	495,882
<i>Total current liabilities</i>	<u>1,526,732</u>	<u>925,601</u>	<u>2,452,333</u>
Noncurrent liabilities			
Bonds payable	-	661,431	661,431
Loans payable	5,726,097	3,821,285	9,547,382
Accrued compensated absences	328,760	31,513	360,273
Accrued landfill closure costs	-	220,000	220,000
Net pension liability	11,552,108	1,824,071	13,376,179
<i>Total noncurrent liabilities</i>	<u>17,606,965</u>	<u>6,558,300</u>	<u>24,165,265</u>
<i>Total liabilities</i>	<u>19,133,697</u>	<u>7,483,901</u>	<u>26,617,598</u>
<b>Deferred inflows</b>			
Difference between expected and actual experience	56,748	9,410	66,158
Changes of assumptions	42,103	17,320	59,423
Changes in proportion	301,718	50,032	351,750
<i>Total deferred inflows</i>	<u>400,569</u>	<u>76,762</u>	<u>477,331</u>
<b>Net position</b>			
Net investment in capital assets	8,340,884	4,721,884	13,062,768
Restricted for:			
Debt service	1,650,839	532,065	2,182,904
Capital projects	1,414,572	-	1,414,572
Special revenue	2,918,078	-	2,918,078
Unrestricted	<u>(2,525,151)</u>	<u>1,419,959</u>	<u>(1,105,192)</u>
<i>Total net position</i>	<u>11,799,222</u>	<u>6,673,908</u>	<u>18,473,130</u>
<i>Total liabilities, deferred inflows, and net position</i>	<u>\$ 31,333,488</u>	<u>\$ 14,234,571</u>	<u>\$ 45,568,059</u>

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

**STATE OF NEW MEXICO**  
City of Española  
Statement of Activities  
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government	\$ 4,515,856	\$ 333,164	\$ -	\$ -
Public safety	6,119,119	-	817,068	-
Public works	3,694,825	3,970	532,240	1,370,176
Culture and recreation	1,242,740	8,787	-	-
Interest on long-term debt	288,262	-	-	-
<i>Total governmental activities</i>	<u>15,860,802</u>	<u>345,921</u>	<u>1,349,308</u>	<u>1,370,176</u>
<b>Business-type Activities:</b>				
Water and wastewater	3,737,820	5,410,163	-	-
Solid waste	897,625	722,843	-	-
<i>Total business-type activities</i>	<u>4,635,445</u>	<u>6,133,006</u>	<u>-</u>	<u>-</u>
<i>Total primary government</i>	<u>\$ 20,496,247</u>	<u>\$ 6,478,927</u>	<u>\$ 1,349,308</u>	<u>\$ 1,370,176</u>

**General Revenues and Transfers:**

Taxes:

Property taxes, levied for general purposes

Gross receipts taxes

Gasoline and motor vehicle taxes

Franchise taxes

Lodgers' taxes

Investment income

Rental income

Donated asset

Miscellaneous income

Transfers

*Total general revenues and transfers*

Special item - decrease in landfill liability (see note 13)

Change in net position

*Net position - beginning*

Net position- restatement (Note 14)

Net position- beginning, as restated

*Net position - ending*

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

**Net (Expense) Revenue and Changes in Net Position**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (4,182,692)	\$ -	\$ (4,182,692)
(5,302,051)	-	(5,302,051)
(1,788,439)	-	(1,788,439)
(1,233,953)	-	(1,233,953)
(288,262)	-	(288,262)
<u>(12,795,397)</u>	<u>-</u>	<u>(12,795,397)</u>
-	1,672,343	1,672,343
-	(174,782)	(174,782)
<u>-</u>	<u>1,497,561</u>	<u>1,497,561</u>
<u>(12,795,397)</u>	<u>1,497,561</u>	<u>(11,297,836)</u>
816,282	-	816,282
9,853,205	160,466	10,013,671
477,420	-	477,420
214,169	-	214,169
25,283	-	25,283
42,059	13,031	55,090
73,511	-	73,511
39,000	-	39,000
201,261	-	201,261
939,367	(939,367)	-
<u>12,681,557</u>	<u>(765,870)</u>	<u>11,915,687</u>
<u>-</u>	<u>13,750</u>	<u>13,750</u>
(113,840)	745,441	631,601
11,288,250	5,928,467	17,216,717
<u>624,812</u>	<u>-</u>	<u>624,812</u>
<u>11,913,062</u>	<u>5,928,467</u>	<u>17,841,529</u>
<u>\$ 11,799,222</u>	<u>\$ 6,673,908</u>	<u>\$ 18,473,130</u>

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

**STATE OF NEW MEXICO**

City of Española  
Balance Sheet  
Governmental Funds  
June 30, 2017

	<b>General Fund</b>	<b>Municipal Service Improvements Special Revenue Fund</b>	<b>2002 Bond Debt Service Fund</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,809,712	\$ 2,228,678	\$ 777,341
Investments	1,956,655	-	420,181
Receivables:			
Property taxes	200,418	-	-
Other receivables	1,442,757	118,878	-
Due from other funds	696,928	-	-
<i>Total assets</i>	<u>\$ 6,106,470</u>	<u>\$ 2,347,556</u>	<u>\$ 1,197,522</u>
<b>Liabilities</b>			
Accounts payable	\$ 199,375	\$ 6,847	\$ -
Accrued payroll	173,344	-	-
Due to other funds	124,412	-	-
<i>Total liabilities</i>	<u>497,131</u>	<u>6,847</u>	<u>-</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue - property taxes	183,009	-	-
<i>Total deferred inflows of resources</i>	<u>183,009</u>	<u>-</u>	<u>-</u>
<b>Fund balances</b>			
Spendable			
Restricted for:			
Municipal service improvements	-	2,340,709	-
Maintenance of roads	-	-	-
Fire departments	-	-	-
Tourism	-	-	-
Public safety	-	-	-
Capital projects expenditures	-	-	-
Debt service expenditures	-	-	1,197,522
Committed for:			
Subsequent year's expenditures	894,632	-	-
Unassigned	4,531,698	-	-
<i>Total fund balances</i>	<u>5,426,330</u>	<u>2,340,709</u>	<u>1,197,522</u>
<i>Total liabilities, deferred inflows and fund balances</i>	<u>\$ 6,106,470</u>	<u>\$ 2,347,556</u>	<u>\$ 1,197,522</u>

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



<b>Other Governmental Funds</b>	<b>Total</b>
\$ 2,625,981	\$ 7,441,712
406,818	2,783,654
-	200,418
438,333	1,999,968
124,412	821,340
<u>\$ 3,595,544</u>	<u>\$ 13,247,092</u>
\$ 44,562	\$ 250,784
59,521	232,865
309,708	434,120
413,791	917,769
-	183,009
-	183,009
-	2,340,709
53,804	53,804
281,281	281,281
231,107	231,107
157,164	157,164
1,701,921	1,701,921
860,135	2,057,657
-	894,632
(103,659)	4,428,039
<u>3,181,753</u>	<u>12,146,314</u>
<u>\$ 3,595,544</u>	<u>\$ 13,247,092</u>

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

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**STATE OF NEW MEXICO**

City of Española

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position  
June 30, 2017

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$ 12,146,314
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	14,641,652
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in the funds	
Deferred outflows of resources related to employer contributions subsequent to the measurement date	605,224
Deferred outflows of resources related to the net difference between projected and actual investment earnings on pension plan investments	1,757,752
Deferred outflows of resources related to difference between expected and actual experience	626,498
Deferred outflows of resources related to changes of assumptions	668,237
Deferred outflows of resources related to changes in proportion	221,153
Deferred inflows of resources related to difference between expected and actual experience	(56,748)
Deferred inflows of resources related to changes of assumptions	(42,103)
Deferred inflows of resources related to changes in proportion	(301,718)
Delinquent property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred inflow in the fund financial statements, but are considered revenue in the Statement of Activities	183,009
Interest on long-term debt is not accrued in the fund financial statements unless it is due and payable:	
Accrued interest	(43,143)
Some liabilities, including bonds payable, loans, notes, accrued compensated absences, and the net pension liability are not due and payable in the current period and, therefore, are not reported in the funds:	
Current and noncurrent portions of accrued compensated absences	(754,029)
Current and noncurrent portions of bonds payable	(14,800)
Current and noncurrent portions of loans and notes payable	(6,285,968)
Net pension liability	<u>(11,552,108)</u>
<i>Total net position of governmental activities</i>	<u><u>\$ 11,799,222</u></u>

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

**STATE OF NEW MEXICO**  
City of Española  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Municipal Service Improvements Special Revenue Fund</u>	<u>2002 Bond Debt Service Fund</u>
<i>Revenues</i>			
Taxes:			
Property	\$ 732,020	\$ -	\$ -
Gross receipts	7,990,330	-	-
Gasoline and motor vehicle taxes	117,987	-	-
Other	214,169	-	-
Intergovernmental income:			
Federal operating grants	-	-	-
Federal capital grants	-	-	-
State operating grants	-	655,009	-
State capital grants	-	-	-
Charges for services	333,164	-	-
Investment income	32,873	-	-
Rental income	73,511	-	-
Miscellaneous	110,203	-	-
<i>Total revenues</i>	<u>9,604,257</u>	<u>655,009</u>	<u>-</u>
<i>Expenditures</i>			
Current:			
General government	4,210,301	-	32,176
Public safety	3,878,342	-	-
Public works	852,099	321,819	-
Culture and recreation	880,348	-	-
Capital outlay	90,767	115,460	-
Debt service:			
Principal	-	-	5,370,000
Interest	-	-	248,735
<i>Total expenditures</i>	<u>9,911,857</u>	<u>437,279</u>	<u>5,650,911</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(307,600)</u>	<u>217,730</u>	<u>(5,650,911)</u>
<i>Other financing sources (uses)</i>			
Proceeds from issuance of debt	-	-	4,290,000
Transfers in	775,974	-	728,288
Transfers out	(422,801)	-	-
<i>Total other financing sources (uses)</i>	<u>353,173</u>	<u>-</u>	<u>5,018,288</u>
<i>Net change in fund balances</i>	45,573	217,730	(632,623)
<i>Fund balance - beginning of year</i>	4,755,945	2,122,979	1,830,145
<i>Fund balances - restatement (Note 14)</i>	<u>624,812</u>	<u>-</u>	<u>-</u>
<i>Fund balances - beginning-as restated</i>	<u>5,380,757</u>	<u>2,122,979</u>	<u>1,830,145</u>
<i>Fund balance - end of year</i>	<u>\$ 5,426,330</u>	<u>\$ 2,340,709</u>	<u>\$ 1,197,522</u>

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

<b>Other Governmental Funds</b>	<b>Total</b>
\$ -	\$ 732,020
1,862,875	9,853,205
359,433	477,420
25,283	239,452
134,356	134,356
1,193,643	1,193,643
559,943	1,214,952
176,533	176,533
12,757	345,921
9,186	42,059
-	73,511
91,058	201,261
<u>4,425,067</u>	<u>14,684,333</u>
4,499	4,246,976
1,449,211	5,327,553
2,308,948	3,482,866
57,310	937,658
492,765	698,992
414,774	5,784,774
81,405	330,140
<u>4,808,912</u>	<u>20,808,959</u>
<u>(383,845)</u>	<u>(6,124,626)</u>
-	4,290,000
485,827	1,990,089
<u>(627,921)</u>	<u>(1,050,722)</u>
<u>(142,094)</u>	<u>5,229,367</u>
(525,939)	(895,259)
3,707,692	12,416,761
-	624,812
<u>3,707,692</u>	<u>13,041,573</u>
<u>\$ 3,181,753</u>	<u>\$ 12,146,314</u>

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

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**STATE OF NEW MEXICO**

City of Española

Exhibit B-2

Page 2 of 2

Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds	\$	(895,259)
--	----	-----------

Governmental funds report capital outlays as expenditures. However, in  
the Statement of Activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense:

Capital expenditures recorded in capital outlay		698,992
Depreciation expense		(820,103)
Book value of disposed capital assets		(21,880)
Donated assets		39,000

Revenues in the Statement of Activities that do not provide current financial  
resources are not reported as revenue in the funds:

Increase in unavailable revenue related to property taxes receivable		84,263
--	--	--------

The issuance of long-term debt (e.g. bonds, loans, leases) provides current financial  
resources to governmental funds, while the repayment of the principal of long-term  
debt consumes the current financial resources of governmental funds. Neither  
transaction, however, has any effect on net position:

Decrease in accrued interest		41,878
Decrease in accrued compensated absences		28,054
Proceeds from the issuance of debt		(4,290,000)
Principal payments on bonds, notes, and loans payable		5,784,774

Governmental funds report City pension contributions as expenditures. However  
in the Statement of Activities, the cost of pension benefits earned net of employee  
contributions is reported as pension expense

City pension contributions		605,224
Pension expense		(1,368,783)

<i>Change in net position of governmental activities</i>	<u>\$</u>	<u>(113,840)</u>
--	-----------	------------------

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

## STATE OF NEW MEXICO

Exhibit C-1

City of Española

General Fund

## Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes:				
Property taxes	\$ 621,955	\$ 698,200	\$ 731,598	\$ 33,398
Gross receipts	7,711,580	7,735,918	7,584,976	(150,942)
Gas and motor vehicle	107,061	110,359	108,022	(2,337)
Other	273,809	270,546	254,589	(15,957)
Charges for services	17,633	18,117	25,131	7,014
Licenses and fees	352,994	376,263	308,033	(68,230)
Investment income	23,024	20,505	32,873	12,368
Rental income	82,231	82,145	73,511	(8,634)
Miscellaneous	80,847	73,606	116,515	42,909
<i>Total revenues</i>	<u>9,271,134</u>	<u>9,385,659</u>	<u>9,235,248</u>	<u>(150,411)</u>
<i>Expenditures</i>				
Current:				
General government	3,522,331	3,526,233	3,563,989	(37,756)
Public safety	4,356,156	4,373,090	3,914,941	458,149
Public works	1,023,404	1,030,704	834,754	195,950
Culture and recreation	998,853	1,031,855	874,722	157,133
Capital outlay	320,000	350,905	315,726	35,179
<i>Total expenditures</i>	<u>10,220,744</u>	<u>10,312,787</u>	<u>9,504,132</u>	<u>808,655</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(949,610)</u>	<u>(927,128)</u>	<u>(268,884)</u>	<u>658,244</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	731,302	704,243	-	(704,243)
Transfers in	641,109	645,686	775,974	130,288
Transfers out	(422,801)	(422,801)	(422,801)	-
<i>Total other financing sources (uses)</i>	<u>949,610</u>	<u>927,128</u>	<u>353,173</u>	<u>(573,955)</u>
<i>Net change in fund balance</i>	-	-	84,289	84,289
<i>Fund balance - beginning of year</i>	-	-	4,254,594	4,254,594
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,338,883</u>	<u>\$ 4,338,883</u>
Net change in fund balance (Non-GAAP basis)				\$ 84,289
Adjustments to revenues for gross receipts taxes, franchise taxes, and miscellaneous income				369,009
Adjustments to expenditures for salaries, professional services, and supplies				(407,725)
<i>Net change in fund balance (GAAP basis)</i>				<u>\$ 45,573</u>

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



## STATE OF NEW MEXICO

Exhibit C-2

City of Española

Municipal Service Improvements Special Revenue Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Franchise	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	657,561	657,718	647,721	(9,997)
State capital grants	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>657,561</u>	<u>657,718</u>	<u>647,721</u>	<u>(9,997)</u>
<i>Expenditures</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	488,037	418,722	231,954	186,768
Culture and recreation	-	-	-	-
Capital outlay	169,524	238,996	223,641	15,355
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>657,561</u>	<u>657,718</u>	<u>455,595</u>	<u>202,123</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>192,126</u>	<u>192,126</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	192,126	192,126
<i>Fund balance - beginning of year</i>	-	-	2,036,552	2,036,552
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,228,678</u>	<u>\$ 2,228,678</u>
Net change in fund balance (Non-GAAP basis)				\$ 192,126
Adjustments to revenues state operating grants				7,288
Adjustments to expenditures for professional services				18,316
<i>Net change in fund balance (GAAP basis)</i>				<u>\$ 217,730</u>

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

**STATE OF NEW MEXICO**  
City of Española  
Statement of Net Position  
Proprietary Funds  
June 30, 2017

	<b>Enterprise Funds</b>		
	<b>Water and Wastewater</b>	<b>Solid Waste</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 2,479,892	\$ -	\$ 2,479,892
Investments	58,929	-	58,929
Other receivables	42,243	29,978	72,221
Customer receivables, net	856,954	208,908	1,065,862
<i>Total current assets</i>	<u>3,438,018</u>	<u>238,886</u>	<u>3,676,904</u>
Noncurrent assets			
Restricted investments	532,065	-	532,065
Capital assets	16,743,256	-	16,743,256
Less: accumulated depreciation	(6,964,604)	-	(6,964,604)
<i>Total noncurrent assets</i>	<u>10,310,717</u>	<u>-</u>	<u>10,310,717</u>
<b>Deferred outflows of resources</b>			
Employer contributions subsequent to the measurement date	96,856	-	96,856
Net difference between projected and actual investment	281,051	-	281,051
Difference between expected and actual experience	101,890	-	101,890
Changes of assumption	121,352	-	121,352
Changes in proportion	33,021	-	33,021
<i>Total deferred outflows of resources</i>	<u>634,170</u>	<u>-</u>	<u>634,170</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 14,382,905</u>	<u>\$ 238,886</u>	<u>\$ 14,621,791</u>

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

	<b>Enterprise Funds</b>		
	<b>Water and Wastewater</b>	<b>Solid Waste</b>	<b>Total</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 117,939	\$ 62,551	\$ 180,490
Accrued payroll	42,281	-	42,281
Interfund payable	-	387,220	387,220
Accrued interest payable	58,165	-	58,165
Bonds payable	20,370	-	20,370
Loans and notes payable	553,682	-	553,682
Accrued compensated absences	70,613	-	70,613
<i>Total current liabilities</i>	<u>863,050</u>	<u>449,771</u>	<u>1,312,821</u>
Noncurrent liabilities			
Bonds payable	661,431	-	661,431
Loans payable	3,821,285	-	3,821,285
Accrued compensated absences	31,513	-	31,513
Accrued landfill closure costs	-	220,000	220,000
Net pension liability	1,824,071	-	1,824,071
<i>Total noncurrent liabilities</i>	<u>6,338,300</u>	<u>220,000</u>	<u>6,558,300</u>
<i>Total liabilities</i>	<u>7,201,350</u>	<u>669,771</u>	<u>7,871,121</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	9,410	-	9,410
Changes of assumptions	17,320	-	17,320
Changes in proportion	50,032	-	50,032
<i>Total deferred inflows of resources</i>	<u>76,762</u>	<u>-</u>	<u>76,762</u>
<b>Net position</b>			
Net investment in capital assets	4,721,884	-	4,721,884
Restricted for:			
Debt service	532,065	-	532,065
Unrestricted	1,850,844	(430,885)	1,419,959
<i>Total net position</i>	<u>7,104,793</u>	<u>(430,885)</u>	<u>6,673,908</u>
<i>Total liabilities, deferred inflows, and net position</i>	<u>\$ 14,382,905</u>	<u>\$ 238,886</u>	<u>\$ 14,621,791</u>

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

**STATE OF NEW MEXICO**  
City of Española  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2017

Exhibit D-2

	<b>Enterprise Funds</b>		
	<b>Water and Wastewater</b>	<b>Solid Waste</b>	<b>Total</b>
<i>Operating revenues</i>			
Charges for services net of allowances of \$104,010 and \$25,356, respectively	\$ 5,410,163	\$ 722,843	\$ 6,133,006
<i>Total operating revenues</i>	<u>5,410,163</u>	<u>722,843</u>	<u>6,133,006</u>
<i>Operating expenses</i>			
Payroll and benefits	1,644,796	-	1,644,796
Contractual services	245,676	767,349	1,013,025
Supplies and services	509,153	130,276	639,429
Repairs and maintenance	231,472	-	231,472
Utilities	537,489	-	537,489
Depreciation	443,004	-	443,004
<i>Total operating expenses</i>	<u>3,611,590</u>	<u>897,625</u>	<u>4,509,215</u>
<i>Operating income</i>	<u>1,798,573</u>	<u>(174,782)</u>	<u>1,623,791</u>
<i>Non-operating revenues (expenses)</i>			
Gross receipts taxes	-	160,466	160,466
Interest expense	(126,230)	-	(126,230)
Investment income	13,031	-	13,031
Amortization of landfill liability	-	13,750	13,750
<i>Total non-operating revenues (expenses)</i>	<u>(113,199)</u>	<u>174,216</u>	<u>61,017</u>
<i>Income before contributions and transfers</i>	1,685,374	(566)	1,684,808
Transfers in	483,404	-	483,404
Transfers out	(1,355,217)	(67,554)	(1,422,771)
<i>Total contributions and transfers</i>	<u>(871,813)</u>	<u>(67,554)</u>	<u>(939,367)</u>
<i>Income before special item</i>	<u>-</u>	<u>106,662</u>	<u>106,662</u>
<i>Change in net position</i>	813,561	(68,120)	745,441
<i>Net position - beginning of year</i>	<u>6,291,232</u>	<u>(362,765)</u>	<u>5,928,467</u>
<i>Net position - end of year</i>	<u>\$ 7,104,793</u>	<u>\$ (430,885)</u>	<u>\$ 6,673,908</u>

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

**STATE OF NEW MEXICO**  
City of Española  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2017

Exhibit D-3  
Page 1 of 2

	<b>Enterprise Funds</b>		
	<b>Water and Wastewater</b>	<b>Solid Waste</b>	<b>Total</b>
<i>Cash flows from operating activities</i>			
Cash received from user charges	\$ 5,364,163	\$ 721,927	\$ 6,086,090
Cash payments to employees for services	(1,551,165)	-	(1,551,165)
Cash payments to suppliers for goods and services	(1,461,409)	(890,397)	(2,351,806)
<i>Net cash provided (used) by operating activities</i>	<u>2,351,589</u>	<u>(168,470)</u>	<u>2,183,119</u>
<i>Cash flows from noncapital financing activities</i>			
Gross receipts taxes	-	158,767	158,767
Interfund transfers (net)	(1,355,217)	(67,554)	(1,422,771)
Interfund loans (repaid) received	483,404	77,257	560,661
<i>Net cash provided (used) by noncapital financing activities</i>	<u>(871,813)</u>	<u>168,470</u>	<u>(703,343)</u>
<i>Cash flows from capital and related financing activities</i>			
Acquisition of capital assets	(84,493)	-	(84,493)
Interest paid	(131,598)	-	(131,598)
Principal payments on bonds and loans	(651,286)	-	(651,286)
<i>Net cash used by capital and related financing activities</i>	<u>(867,377)</u>	<u>-</u>	<u>(867,377)</u>
<i>Cash flows from investing activities</i>			
Investment income	13,031	-	13,031
<i>Net cash provided by investing activities</i>	<u>13,031</u>	<u>-</u>	<u>13,031</u>
<i>Net increase in cash and cash equivalents</i>	625,430	-	625,430
<i>Cash and cash equivalents - beginning of year</i>	<u>2,386,527</u>	<u>-</u>	<u>2,386,527</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 3,011,957</u>	<u>\$ -</u>	<u>\$ 3,011,957</u>
<i>Per Exhibit D-1</i>			
Cash, investments, and cash equivalents	\$ 2,479,892	\$ -	\$ 2,479,892
Restricted investments	532,065	-	532,065
<i>Total</i>	<u>\$ 3,011,957</u>	<u>\$ -</u>	<u>\$ 3,011,957</u>

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

**STATE OF NEW MEXICO**  
City of Española  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2017

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Reconciliation of operating income to net cash provided (used) by operating activities:</i>			
Operating income (loss)	\$ 1,798,573	\$ (174,782)	\$ 1,623,791
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	443,004	-	443,004
Noncash pension expense	132,019	-	132,019
Changes in assets, deferred outflows, and liabilities:			
Receivables	(46,000)	(916)	(46,916)
Deferred outflows - subsequent contributions	(5,407)	-	(5,407)
Accounts payable	62,381	7,228	69,609
Accrued payroll	(38,265)	-	(38,265)
Compensated absences	5,284	-	5,284
<i>Net cash provided (used) by operating activities</i>	<u>\$ 2,351,589</u>	<u>\$ (168,470)</u>	<u>\$ 2,183,119</u>

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

**STATE OF NEW MEXICO**  
City of Española  
Statement of Fiduciary Assets and Liabilities - Agency Funds  
June 30, 2017

Exhibit E-1

<i>Assets</i>	
Cash	\$ 402,220
Investments	43,000
Accounts receivable	<u>586</u>
<i>Total assets</i>	<u><u>\$ 445,806</u></u>
 <i>Liabilities</i>	
Bond deposits payable	\$ 83,413
Due to other entities	<u>362,393</u>
<i>Total liabilities</i>	<u><u>\$ 445,806</u></u>

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

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**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies**

The City of Española (the City) was incorporated under the provisions of Chapter 3, Article 2 NMS 1978. The City operates under an elected Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public utilities (water, wastewater, and solid waste), health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services.

The City of Española is a body politic and corporate under the name and form of government selected by its qualified electors. The City may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico;
6. Protect generally the property of its municipality and its inhabitants;
7. Preserve peace and order within the municipality; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of the City is presented to assist in the understanding of City's financial statements. The financial statements and notes are the representation of City's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

During the year ended June 30, 2017, the City adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (partial)*, No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, and No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. These six Statements are required to be implemented as of June 30, 2017, if applicable.

The objective of GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the City, as its pension plan is within the scope of Statement 68.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies (continued)**

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the City's financial statements directly; however, the effects on the City's OPEB plan, administered through the New Mexico Retiree Health Care Authority, will be seen in future periods.

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

This statement does not have a material effect on the financial statements of the City.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies (continued)**

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The City's pension plan does not meet the criteria for exclusion.

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The City does not have a component unit therefore this statement does not affect the City.

GASB Statement No. 82 clarified and adjusted several items from GASB 67 and 68, including the definition of covered payroll, the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

The more significant of the City's accounting policies are described below.

*A. Financial Reporting Entity*

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

**STATE OF NEW MEXICO**  
City of Española  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*A. Financial Reporting Entity (Continued)*

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the City has no component units, and is not a component unit of another governmental agency.

*B. Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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*.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are 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 requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Measurement focus, basis of accounting, and financial statement presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, net of estimated refunds, are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets deferred outflows of resources, liabilities, and deferred inflow of resources resulting from nonexchange transaction should be recognized in accordance with the requirements of the Governmental Accounting Standards Board codification N50 (GASBS 34 paragraph 16 as amended by GASBS 63 paragraphs 7 and 8). Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Accounting principles generally accepted in the United States of America require that grant revenue (voluntary nonexchange transactions) be recognized as revenue in the government-wide financial statements when all eligibility requirements have been met and recognized as revenue in the governmental fund financial statements.

Amounts received from reimbursement basis grants are recorded as revenue in the governmental fund financial statements once an allowable cost has been incurred in accordance with GASB codification section N50 paragraph .117 (c) and GASBS 33 paragraph 20c footnote 10. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. 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, subject to the availability criterion. 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 as soon as all eligibility requirements imposed by the provider have been met, subject to the availability criterion. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This fund includes state shared gross receipts tax income fund and state shared gas tax income funds.

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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Measurement focus, basis of accounting, and financial statement presentation (Continued)*

The *Municipal Service Improvements Special Revenue Fund* that is used to account for municipal gross receipts pursuant to section 7-9-3.5 NMSA 1978, dedicated from improvements to the municipal streets, buildings, police department and recreational facilities.

The *2002 Bond Debt Service Fund* accounts for the debt service payments of the 1999-2002 Bond Series.

The City reports its proprietary funds as major funds. Proprietary funds include:

The *Water and Wastewater Fund* is used to account for the activities of the City's water and wastewater operations.

The *Solid Waste Fund* is used to account for the all garbage operations of the solid waste system.

Additionally, the City reports the following fund type:

The *Fiduciary Fund* is purely custodial (assets equal liabilities) and does not involve the measurement of results of operations. This fund accounts for assets held by the City in a trustee capacity for the several operations at City Hall.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The City does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Proprietary funds distinguish 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 City's enterprise fund is charges for services for the City's utilities. 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.

**STATE OF NEW MEXICO**  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Measurement focus, basis of accounting, and financial statement presentation (Continued)*

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

*D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position, and Fund Equity*

**Deposits and Investments:** The City's cash and cash equivalents for purposes of the statement of cash flows 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. The City maintains a pooled cash and investment fund that includes cash, cash equivalents, and certificates of deposits with original maturities in excess of three months. Each individual fund reports its share of the pooled cash and investments. The amount is reported as Cash, investments and cash equivalents in the statement of net position and the governmental funds balance sheet. The City also maintains investment accounts that are separate from the pooled cash and investments. These separate investments accounts are certificate of deposits with original maturities in excess of three months from the date of acquisition and are reported as other investments in the statement of net position and the governmental funds balance sheet.

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

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

**Receivables and Payables:** Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The City estimates the allowance for uncollectible accounts based off the days delinquent. The City has estimated all accounts that are greater than 90 days to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied. Property taxes are considered to be 100% collectible.

**Restricted Assets:** Restricted assets consist of those funds that are not expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used and restricted for future debt service payments, and to meet reserve requirements specified by the loan and bond documents including loans with the New Mexico Finance Authority.

**STATE OF NEW MEXICO**  
City of Española  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position, and Fund Equity (continued)*

**Capital Assets:** Capital assets, which include land and improvements, buildings and improvements, vehicles, furniture, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns 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. Pursuant to the implementation of GASB Statement No. 34, the historical costs of infrastructure assets (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information Technology Equipment including software is being capitalized and included in machinery and equipment in accordance with NMAC 2.20.1.9 C (5). 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. Library books and periodicals are estimated to have a useful life of less than one year or are under the capitalization threshold and are expensed when purchased.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest expense capitalized by the City during the current fiscal. No interest was included as part of the cost of capital assets under construction.

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	20-40
Infrastructure	40-60
Vehicles, furniture and equipment	5-10

**Unavailable Revenues:** 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. Property taxes uncollected after November 10<sup>th</sup> and April 10<sup>th</sup> are considered delinquent and the City may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Rio Arriba and Santa Fe County’s and remitted monthly to the City. The portion of property taxes receivables that are uncollected as of 60 days from year-end are considered to be unavailable and are reported as deferred inflow in the governmental funds balance sheet. The uncollected portion of property taxes receivables as of June 30, 2017 totaled \$183,009.

**Compensated Absences:** The City’s employees earn personal leave at a rate of 22 to 27 days per year based on years of service. Employees can carry over unused personal leave each year with a cap of 500 hours.



**STATE OF NEW MEXICO**  
City of Española  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position, and Fund Equity (continued)*

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental or proprietary 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 leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net position.

**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 Public Employees Retirement Association (P.E.R.A) and additions to/deductions from P.E.R.A's fiduciary net position have been determined on the same basis as they are reported by P.E.R.A, 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.

**Long-term Obligations:** In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method or the straight-line method if the difference is minimal. Bonds payable are reported net of the applicable bond premium or discount. For fund financial reporting, bond premiums and discounts, as well as issuance costs, are recognized in the period the bonds are issued. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

**Deferred Inflows of Resources:** In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The City has one type of deferred inflow which arises under the modified accrual basis of accounting that qualifies for reporting in this category. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The item, unavailable revenue - property taxes, is typically reported only in the governmental funds balance sheet and is discussed above.

In addition, the City has three types of items present on the Statement of Net Position for both the governmental and business-type activities, which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, difference between expected and actual experience of \$66,158, changes of assumptions of \$59,423, and changes in proportion of \$351,750 are reported on the Statement of Net Position. These amounts are reported as a deferred inflow and amortized into pension expense over the average remaining service life of employees.

**STATE OF NEW MEXICO**  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position, and Fund Equity (continued)*

**Deferred Outflows of Resources:** In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The City has five types of items that qualify for reporting in this category in both the governmental and business-type activities. Accordingly, the first item - employer contributions subsequent to measurement date has been reported as a deferred outflow of resources in the amount of \$702,080. This amount is reported in the Statement of Net Position.

These amounts will directly reduce the net pension liability in the next fiscal year. The other items relate to the net difference between projected and actual investment earnings of \$2,038,803, the difference between expected and actual experience of \$728,388, the changes of assumption of \$789,589, and changes in proportion of \$254,174. These amounts are amortized into pension expense over the average remaining service life of employees.

**Fund Balance Classification Policies and Procedures:** For committed fund balance, the City's highest level of decision-making authority is the City Council. The formal action that is required to be taken to establish a fund balance commitment is the City Council. For assigned fund balance, the City Council or an official or body to which the City Council delegates the authority is authorized to assign amounts to a specific purpose. The authorization policy is in governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

For the classification of fund balances, the City considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the City considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Nonspendable Fund Balance:** At June 30, 2017, the City did not have any fund balances in nonspendable form.

**Restricted Fund Balance:** At June 30, 2017, the City has presented restricted fund balance on the governmental funds balance sheet in the amount of \$6,823,643 for various general government operations and debt service as restricted by enabling legislation. The details of these fund balance items are located on the governmental funds balance sheet as detailed on pages 16-17.

**Minimum Fund Balance Policy:** The City's policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. At a minimum, the budget shall ensure that the City holds cash reserves of 1/12th the General Fund final budgeted expenditures and transfers out in the amount of \$894,632.

**STATE OF NEW MEXICO**  
City of Española  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position, and Fund Equity (continued)*

**Net Position:** Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets: Amounts invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted Net Position: Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net position restricted for “special revenue, debt service, and capital projects” are described on pages 37-38 and 76-77.
- c. Unrestricted Net Position: All other net position amounts that do not meet the definition of “restricted” or “net investment in capital assets.”

**Interfund Transactions:** Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**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 in the City’s financial statements include the allowance for uncollectible accounts in the general fund and the enterprise funds, accrued compensated absences, estimated closure costs for the City’s landfill, net pension liability and related deferred inflows and outflows, and the useful lives of depreciable assets used to calculate depreciation expense.

**NOTE 2. Stewardship, Compliance and Accountability**

*Budgetary Information*

Annual budgets of the City are prepared prior to June 1 and must be approved by resolution of the City Councilors, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the City Council Members and the Department of Finance and Administration. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total by fund.

Governmental fund budgets are prepared on the Non-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.

**STATE OF NEW MEXICO**  
City of Española  
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June 30, 2017

**NOTE 2. Stewardship, Compliance and Accountability (Continued)**

*Budgetary Information (Continued)*

Proprietary fund 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. The City does not budget for depreciation expense, only capital outlay.

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

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

**NOTE 3. Deposits and Investments**

State statutes authorize the investment of City 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. The City is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2017.

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 City. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

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

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

All of the City's accounts are at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the Standard Maximum Deposit Insurance Amount of \$250,000.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2017, \$9,738,209 of the City's bank balance of \$10,238,210 was subject to custodial credit risk. \$5,177,840 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the City's name and \$4,560,370 of the City's deposits were uninsured and uncollateralized at June 30, 2017.

**STATE OF NEW MEXICO**  
City of Española  
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**NOTE 3. Deposits and Investments (continued)**

	<b>Century Bank</b>
Amount of deposits	\$ 10,238,210
FDIC Coverage	(500,000)
Total uninsured public funds	9,738,210
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	5,177,840
Uninsured and uncollateralized	\$ 4,560,370
Collateral requirement (50% of uninsured funds)	\$ 4,869,105
Pledged Collateral	5,177,840
Over (Under) collateralized	\$ 308,734

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

Reconciliation to the Statement of Net Position:

Cash and cash equivalents per Exhibit A-1	\$ 9,531,727
Investments per Exhibit A-1	2,015,584
Restricted cash and cash equivalents per Exhibit A-1	389,877
Restricted investments per Exhibit A-1	1,359,064
Agency funds cash and cash equivalents per Exhibit E-1	402,220
Agency funds investments per Exhibit E-1	43,000
Total cash and cash equivalents	13,741,472
Less: restricted NMFA cash	(389,896)
Plus outstanding checks and other reconciling items	142,906
Less deposits in transit	(65,389)
Less Local Government Investment Pool	(1,786,216)
Less U.S. Treasury Money Market Mutual Funds held with Bank of Albuquerque	(532,046)
Less U.S. Treasury Money Market Mutual Funds held with NMFA	(826,999)
Less U.S. Treasury Money Market Mutual Funds held with XBP	(93,215)
Less petty cash	(470)
Add returned checks	48,063
Bank balance of deposits	\$ 10,238,210

**STATE OF NEW MEXICO**  
City of Española  
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**NOTE 3. Deposits and Investments (continued)**

**Investments**

The City invests excess cash in the State Treasurer Local Government Investment Pool. The New Mexico Local Government Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) through 6-10-10(P) and Sections 6-10-10.1(A) and (E), NMSA 1978. The pool does not have unit shares. Per Section 6-10-10. (F), NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. As of June 30, 2017, the City's investment in the New Mexico LGIP was rated as AAAM by Standard & Poor's.

Additionally, the City has investments held in U.S. Treasury Money Market Mutual Funds at the Bank of Albuquerque in connection with New Mexico Finance Authority (NMFA) loans.

The New Mexico Finance Authority (NMFA) holds and invests cash related to debt service and reserve requirements on behalf of the City and in the City's name pursuant to loan agreements with the City. NMFA invest the amounts in U.S Treasuries Money Market Mutual Funds.

As the City does not acquire the securities or assets for purpose of obtaining income or profit, the asset does not meet the definition of an investment as defined by GASBS 31 and therefore the assets are classified as restricted cash in the statement of net position.

Additionally, the City has investments held in U.S. Treasury Money Market Mutual Funds at the Bank of Albuquerque in connection with New Mexico Finance Authority (NMFA) loans. Also, the City has investments which are managed by NMFA, on deposit with the State Treasurer's office, in NMFA's name for the benefit of the City.

The City's investments at June 30, 2017 include the following:

<u>Investments</u>	<u>Rated</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
New Mexico Local Government Investment Pool	AAAM	WAM (F) 77 day	\$ 1,786,216
U.S. Treasury Money Market Mutual Funds held with Bank of Albuquerque	Aaa **	<90 Days	532,046
U.S. Treasury Money Market Mutual Funds held with NMFA	Aaa **	<90 Days	826,999
			<u>\$ 3,145,261</u>

\*\* Based on Moody's rating

*Interest Rate Risk – Investments.* The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

**STATE OF NEW MEXICO**  
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**NOTE 3. Deposits and Investments (continued)**

*Concentration of Credit Risk – Investments.* For an investment, concentration of credit risk is when any one issuer is 5% or more of the investment portfolio of the City. The investments in the New Mexico LGIP and U.S Treasury Money Market Mutual Funds represent 44% and 56%, respectively, of the investment portfolio. Since the City only purchases investments with the highest credit rating, the additional concentration is not viewed to be an additional risk by the City. The City’s policy related to concentration of credit risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

The City has presented certificates of deposits of \$229,390 as investments in the Statement of Net Position; however, these are classified as deposits for disclosure purposes.

**Fair Value Measurement**

The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. See above for discussion of valuation methodologies used to measure fair value of investments.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The City maintained a balance of \$1,786,216 in New MexiGROW LGIP and \$1,359,045 in United States Treasury Money Market Mutual Funds, at year end which required fair value disclosure.

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**NOTE 3. Deposits and Investments (continued)**

The following table sets forth by level within the fair value hierarchy, the City's assets at fair value as of June 30, 2017:

<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>\$ 3,145,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,145,261</u>

**NOTE 4. Receivables**

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

	<u>General</u>	<u>Municipal Service Improvements</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Governmental Activities:</b>				
Property taxes receivable	\$ 200,418	\$ -	\$ -	\$ 200,418
Other receivable:				
Gross receipts	1,423,473	118,878	179,880	1,722,231
Gasoline and motor vehicle	19,284	-	53,798	73,082
Franchise taxes	-	-	-	-
Lodger's taxes	-	-	1,547	1,547
Due from other governments:				
Intergovernmental:				
Federal grants	-	-	102	102
State grants	-	-	163,676	163,676
Miscellaneous	-	-	39,330	39,330
Total receivables	<u>\$ 1,643,175</u>	<u>\$ 118,878</u>	<u>\$ 438,333</u>	<u>\$ 2,200,386</u>

Receivables for governmental activities are considered to be 100% collectible. Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Unavailable revenue related to property taxes receivable for the City for the year ended June 30, 2017 was \$183,009.

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<b>Business-type Activities:</b>			
Customer receivables	\$ 1,651,353	\$ 402,568	\$ 2,053,921
Other receivables:			
Gross receipts taxes	-	29,978	29,978
Miscellaneous	42,243	-	42,243
Total gross receivables	<u>1,693,596</u>	<u>432,546</u>	<u>2,126,142</u>
Less: allowance for doubtful accounts	<u>(794,399)</u>	<u>(193,660)</u>	<u>(988,059)</u>
Total net receivables	<u>\$ 899,197</u>	<u>\$ 238,886</u>	<u>\$ 1,138,083</u>

The allowance for doubtful accounts above relates to customer receivables and consists of accounts that are greater than 90 days overdue.



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**NOTE 5. Transfers and Interfund Receivables**

Net operating transfers, made to close out funds and to supplement other funding sources, were as follows:

<u>Transfers out</u>	<u>Transfers in</u>	<u>Amount</u>
General Fund	2002 Bond Debt Service	\$ 47,045
General Fund	2002 Bond Debt Service	335,015
General Fund	NMFA Debt Service	40,741
Law Enforcement Protection	USDA Loan / Police Department	15,641
Lodgers' Tax	Water and Wastewater	13,500
Infrastructure Projects	Water and Wastewater	324,868
Infrastructure Projects	Water and Wastewater	42,276
Infrastructure Projects	Water and Wastewater	89,170
Infrastructure Projects	NMFA PPR Equipment Project Loan	128,875
NMFA Debt Service	Water and Wastewater	13,591
Water and Wastewater	General Fund	118,204
Water and Wastewater	General Fund	342,001
Water and Wastewater	2002 Bond Debt Service	203,858
Water and Wastewater	NMFA Debt Service	28,100
Water and Wastewater	NMFA PPR Equipment Project Loan	129,439
Water and Wastewater	NMFA Debt Service	13,592
Water and Wastewater	2002 Bond Debt Service	142,369
Water and Wastewater	General Fund	248,215
Water and Wastewater	NMFA PPR Equipment Project Loan	129,439
Solid waste	General Fund	67,554
	Total	<u><u>\$ 2,473,493</u></u>

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2017 is as follows:

<u>Fund Number</u>	<u>Fund Name</u>	<u>Due from</u>	<u>Due to</u>
101	General Fund	\$ 696,928	\$ 124,412
110	Bryne Justice Assistance Grant	10,853	10,853
126	High Intensity Drug Trafficking Area Grant	-	82,000
207	E-911 Grant	-	40,695
210	Roads and Streets	7,689	7,683
219	NM DOT Litter Control Beautification	-	19,180
303	NMLA Capital Improvements Grant	-	116,120
304	NM DOT Grant	-	18,592
316	Federal WWW	105,870	9,459
319	State Agency on Aging Grants	-	5,066
418	USDA Loan/Police Dept	-	60
510	Solid Waste	-	387,220
		<u><u>\$ 821,340</u></u>	<u><u>\$ 821,340</u></u>

All interfund loans are short-term and are expected to be repaid within a year.

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**NOTE 6. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2017 follows. Land and Historical Works of Art are not subject to depreciation.

<b>Governmental activities:</b>	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2017</b>
Capital assets not being depreciated:				
Land	\$ 4,233,471	\$ 96,410	\$ -	\$ 4,329,881
Historical Works of Art	27,700	-	-	27,700
	<u>4,261,171</u>	<u>96,410</u>	<u>-</u>	<u>4,357,581</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings and improvements	20,422,265	329,151	-	20,751,416
Infrastructure	4,919,762	7,469	-	4,927,231
Vehicles, furnitures and equipment	5,601,615	304,962	38,836	5,867,741
	<u>30,943,642</u>	<u>641,582</u>	<u>38,836</u>	<u>31,546,388</u>
Total capital assets being depreciated				
Total Assets	<u>35,204,813</u>	<u>737,992</u>	<u>38,836</u>	<u>35,903,969</u>
Less accumulated depreciation:				
Buildings and improvements	(11,582,176)	(435,568)	-	(12,017,744)
Infrastructure	(4,304,828)	(106,554)	-	(4,411,382)
Vehicles, furnitures and equipment	(4,572,166)	(277,981)	(16,956)	(4,833,191)
	<u>(20,459,170)</u>	<u>(820,103)</u>	<u>(16,956)</u>	<u>(21,262,317)</u>
Total accumulated depreciation				
Total capital assets, net of depreciation	<u>\$ 14,745,643</u>	<u>\$ (82,111)</u>	<u>\$ 21,880</u>	<u>\$ 14,641,652</u>

Depreciation expense for the year ended June 30, 2017 was \$820,103 and was allocated to the following functions in the statement of activities as follows:

General government	\$ 147,604
Public safety	249,923
Public works	179,042
Culture and recreation	<u>243,534</u>
Total	<u>\$ 820,103</u>

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**NOTE 6. Capital Assets (continued)**

<b>Business-type activities:</b>	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2017</b>
Capital assets being depreciated:				
Buildings and improvements	\$ 9,858,769	\$ 61,488	\$ -	\$ 9,920,257
Infrastructure	5,492,166	-	-	5,492,166
Equipment	1,307,828	23,005	-	1,330,833
Total capital assets being depreciated	<u>16,658,763</u>	<u>84,493</u>	<u>-</u>	<u>16,743,256</u>
Less accumulated depreciation:				
Buildings and improvements	(3,496,401)	(236,105)	-	(3,732,506)
Infrastructure	(2,183,253)	(136,476)	-	(2,319,729)
Equipment	(841,946)	(70,423)	-	(912,369)
Total accumulated depreciation	<u>(6,521,600)</u>	<u>(443,004)</u>	<u>-</u>	<u>(6,964,605)</u>
Total capital assets, net of depreciation	<u>\$ 10,137,163</u>	<u>\$ (358,511)</u>	<u>\$ -</u>	<u>\$ 9,778,652</u>

Depreciation expense totaling \$443,004 was charged to water and wastewater fund for fiscal year ending June 30, 2017.

**NOTE 7. Long-term Debt**

**Governmental Activities:**

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

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>June 30, 2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2017</b>	<b>One Year</b>
NMFA Loans	\$ 7,653,884	\$ 4,290,000	\$ 5,715,245	\$ 6,228,639	\$ 502,542
Law Enforcement Bonds	29,200	-	14,400	14,800	14,800
Capital Lease	112,458	-	55,129	57,329	57,329
Compensated Absences	782,083	397,215	425,269	754,029	425,269
Total Long-Term Debt	<u>\$ 8,577,625</u>	<u>\$ 4,687,215</u>	<u>\$ 6,210,043</u>	<u>\$ 7,054,797</u>	<u>\$ 999,940</u>

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**NOTE 7. Long-term Debt (continued)**

**Revenue Bonds**

At June 30, 2017, the City had one revenue bond outstanding. For the Series 2008 Law Enforcement Protection Revenue Bonds, the City pledged revenues from Law Enforcement Protection revenues. The revenue bonds are as follows:

<b>Revenue Bonds Description</b>	<b>Date of Issue</b>	<b>Due Date</b>	<b>Interest Rate</b>	<b>Original Amount of Issue</b>
Series 2008 LE Bonds	2/21/2008	2/21/2018	4.250%	\$ 125,000

The annual requirements to amortize the revenue bonds as of June 30, 2017, including interest payments, are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2018	\$ 14,800	\$ 820	\$ 15,620
	\$ 14,800	\$ 820	\$ 15,620

**NMFA Loans**

The City entered into four loan agreements with the New Mexico Finance Authority, wherein the City pledged revenue derived from State-Shared Gross Receipts Tax to cover debt service. This revenue is not subject to intercept agreements. The NMFA loans are as follows:

<b>Description</b>	<b>Date of Issue</b>	<b>Due Date</b>	<b>Interest Rate</b>	<b>Original Amount of Issue</b>
NMFA - 1999 PPRF - Espanola 1	2/20/1998	5/1/2018	5.63-6.88%	\$ 450,705
NMFA 2007B PPRF - Espanola 8	9/1/2007	3/1/2025	3.29 - 3.97%	7,700,000
NMFA 2549 - Espanola 12	2/4/2011	5/1/2027	3.306%	1,461,097
NMFA 2550 - Espanola 13	2/4/2011	5/1/2023	3.247%	2,415,000
NMFA 3639-PP	2/24/2017	9/1/2025	1.14% - 2.53%	4,290,000

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**NOTE 7. Long-term Debt (continued)**

The annual requirements to amortize the NMFA loans as of June 30, 2017, including interest payments, are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2018	\$ 502,542	\$ 157,137	\$ 659,679
2019	700,000	141,901	841,901
2020	710,000	127,572	837,572
2021	725,000	111,165	836,165
2022	735,000	93,123	828,123
2023-2027	2,856,097	163,148	3,019,245
	<u>\$ 6,228,639</u>	<u>\$ 794,046</u>	<u>\$ 7,022,685</u>

**Capital Lease Payable**

The City entered into a capital lease in a prior year in the amount of \$407,950 at an interest rate of 3.99% and will mature on November 1, 2017. The total amount of future principal payments and interest is as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2018	\$ 57,329	\$ 2,287	\$ 59,616
	<u>\$ 57,329</u>	<u>\$ 2,287</u>	<u>\$ 59,616</u>

**Compensated Absences:** Employees of the City are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2017, compensated absences decreased by \$28,054 from the prior year accrual. Compensated absences are liquidated by the respective funds in which they are accrued.

**Business-Type Activities:**

The proprietary funds have incurred various forms of debt which were used for the purposes of constructing, expanding, repairing and making improvements to its property, plant and equipment. The following schedule shows the changes to its various forms of debt during the fiscal year ended June 30, 2017:

	<b>Balance June 30, 2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
NMFA Loans	\$ 262,167	\$ -	\$ 101,685	\$ 160,482	\$ 13,190
RUS Bonds	701,508	-	19,707	681,801	20,370
NMED Loans	4,744,379	-	529,894	4,214,485	540,492
Landfill Closure Liability	233,750	-	13,750	220,000	-
Compensated Absences	96,842	75,897	70,613	102,126	70,613
Total Long-Term Debt	<u>\$ 6,038,646</u>	<u>\$ 75,897</u>	<u>\$ 735,649</u>	<u>\$ 5,378,894</u>	<u>\$ 644,665</u>

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**NOTE 7. Long-term Debt (continued)**

**Revenue Bonds**

At June 30, 2017, the City had the following revenue bonds outstanding:

<u>Description</u>	<u>Date of Issue</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Original Amount of Issue</u>
1996 RUS	12/18/1996	12/1/2036	5.13%	\$ 707,200
1997 RUS	3/31/1997	3/1/2037	5.00%	225,000

Net revenues of the City's water utility system have been pledged to service these bonds.

The annual requirements to amortize the revenue bonds as of June 30, 2017, including interest payments, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 20,370	\$ 34,665	\$ 55,035
2019	21,408	33,627	55,035
2020	22,499	32,536	55,035
2021	23,645	31,390	55,035
2022	24,850	30,185	55,035
2023-2027	144,582	130,593	275,175
2028-2032	185,362	89,813	275,175
2033-2037	239,085	36,091	275,176
	<u>\$ 681,801</u>	<u>\$ 418,900</u>	<u>\$ 1,100,701</u>

**Notes Payable**

The notes payable entitled to the City's proprietary funds at year end are as follows:

<u>Description</u>	<u>Date of Issue</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Original Amount of Issue</u>
1991 NMED Wastewater	2/15/1991	2/1/2018	2.00%	\$ 3,669,670
WTB 11-0110- Espanola 11	12/11/2009	6/1/2029	2.50%	258,000
NMFA - 1672-DW - Espanola 7	5/1/2005	5/1/2017	1.75%	808,000
2007 NMED	10/3/2006	12/1/2028	2.00%	6,138,344

The annual requirements to amortize the NMFA and NMED loans as of June 30, 2017, including interest payments, are as follows:

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**NOTE 7. Long-term Debt (continued)**

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2018	\$ 553,682	\$ 84,691	\$ 638,373
2019	315,144	73,848	388,992
2020	321,216	67,776	388,992
2021	327,409	61,584	388,993
2022	333,724	55,269	388,993
2023-2027	1,767,844	177,121	1,944,965
2028-2029	755,948	22,038	777,986
	<b>\$ 4,374,967</b>	<b>\$ 542,327</b>	<b>\$ 4,917,294</b>

**Compensated Absences** - Employees of the City are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2017, compensated absences increased by \$5,284 from the prior year accrual. Compensated absences are liquidated by the respective funds in which they are accrued.

**NOTE 8. Risk Management**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The City participates in the New Mexico Self-Insurers' Fund risk pool.

The City is party to various claims and lawsuits arising in the normal course of business. The maximum exposure of the City is not estimable as of June 30, 2017

The City has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the City which exceeds the insurance coverage, the City would be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage has not changed significantly from prior years and coverage's are expected to be continued.

At June 30, 2017, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance.

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**NOTE 9. Other Required Individual Fund Disclosures**

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

Deficit fund balance of individual funds. The following funds had a deficit fund balance as of June 30, 2017:

**Governmental funds**

High Intensity Drug Trafficking Areas	\$ (2,388)
E-911 Grant	(103,599)
NMLA Capital Improvements Grant	(72,613)
NM DOT Grant	(18,592)
State Agency on Aging Grant	(5,066)
USDA Loan/Police Department	(60)
Total	\$ (202,318)

**Enterprise fund**

Solid Waste	\$ (430,885)
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Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary legal level of control is at the fund level. There were no funds that exceeded approved budgetary authority for the year ended June 30, 2017.

Designated cash appropriations in excess of available balances. There were no funds that had designated cash appropriations in excess of available balances for fiscal year ending June 30, 2017.

**NOTE 10. Pension Plan – Public Employee Retirement Association (PERA)**

**General Information about the Pension Plan**

**Plan description.** The Public Employees Retirement Fund (PERA Fund) is a **cost-sharing, multiple employer defined benefit pension plan**. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 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, 2016 available at [https://www.saonm.org/media/audits/366 Public Employees Retirement Association FY2016.pdf](https://www.saonm.org/media/audits/366%20Public%20Employees%20Retirement%20Association%20FY2016.pdf).



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**NOTE 10. Pension Plan - Public Employees Retirement Association (continued)**

**Contributions.** The contribution requirements of defined benefit plan members and the City of Espanola 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 FY16 annual audit report at [https://www.saonm.org/media/audits/366\\_Public\\_Employees\\_Retirement\\_Association\\_FY2016.pdf](https://www.saonm.org/media/audits/366_Public_Employees_Retirement_Association_FY2016.pdf).

**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. City of Espanola'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.

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**NOTE 10. Pension Plan - Public Employees Retirement Association (continued)**

**For PERA Fund Municipal General Division**, at June 30, 2017, City of Espanola reported a liability of \$6,778,886 for its proportionate share of the net pension liability. At June 30, 2016, City of Espanola's proportion was 0.4243% percent, which was a decrease from its proportion measured as of June 30, 2015 of .0307%.

For the year ended June 30, 2017, City of Espanola recognized PERA Fund Municipal General Division pension expense of \$688,384. At June 30, 2017, City of Espanola reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change of assumptions	\$ 397,503	\$ 1,127
Changes in proportion	174,022	281,275
Difference between expected and actual experience	338,702	66,158
Net difference between projected and actual earnings on pension plan investments	1,247,300	-
Contributions subsequent to the measurement date	378,510	-
	<b>\$ 2,536,037</b>	<b>\$ 348,560</b>

\$378,510 reported as deferred outflows of resources related to pensions resulting from City of Espanola's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2018	\$ (404,838)
2019	(404,838)
2020	(691,882)
2021	(307,409)
Thereafter	-

**For PERA Fund Municipal Police Division**, at June 30, 2017, City of Espanola reported a liability of \$3,232,432 for its proportionate share of the net pension liability. At June 30, 2016, City of Espanola's proportion was 0.4381 percent, which decreased by 0.0100 percent from its proportion measured as of June 30, 2015.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 10. Pension Plan - Public Employees Retirement Association (continued)**

For the year ended June 30, 2017, City of Espanola recognized PERA Fund Municipal Police Division pension expense of \$428,933. At June 30, 2017, City of Espanola reported PERA Fund Municipal Police Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in assumptions	\$ 214,098	\$ 58,296
Changes in proportion	-	46,632
Difference between expected and actual experience	237,308	-
Net difference between projected and actual earnings on pension plan investments	511,228	-
Contributions subsequent to the measurement date	190,416	-
	<b>\$ 1,153,050</b>	<b>\$ 104,928</b>

\$190,416 reported as deferred outflows of resources related to pensions resulting from City of Espanola's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2018	\$ (199,370)
2019	(199,370)
2020	(329,202)
2021	(129,764)
Thereafter	-

**For PERA Fund Municipal Fire Division**, at June 30, 2017, City of Espanola reported a liability of \$3,364,861 for its proportionate share of the net pension liability. At June 30, 2016, City of Espanola's proportion was 0.5044 percent, which was a decrease from its proportion measured as of June 30, 2015 of 0.0065 percent.

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June 30, 2017

**NOTE 10. Pension Plan - Public Employees Retirement Association (continued)**

For the year ended June 30, 2017, City of Espanola recognized PERA Fund Municipal Fire Division pension expense of \$444,405. At June 30, 2017, City of Espanola reported PERA Fund Municipal Fire Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in assumptions	\$ 177,988	\$ -
Changes in proportion	80,152	23,843
Difference between expected and actual experience	152,378	-
Net difference between projected and actual earnings on pension plan investments	280,275	-
Contributions subsequent to the measurement date	133,154	-
	<b>\$ 823,947</b>	<b>\$ 23,843</b>

\$133,154 reported as deferred outflows of resources related to pensions resulting from City of Espanola's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2018	\$ (197,362)
2019	(197,362)
2020	(200,329)
2021	(71,897)
Thereafter	-

**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, 2015 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, 2017 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, 2017. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2017 actuarial valuation.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 10. Pension Plan - Public Employees Retirement Association (continued)**

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for the first 10 years, then 3.25% all other years
Projected salary increases	2.75% to 14.25% annual rate
Includes inflation at	2.25% annual rate first 10 years, 2.75% all other years
Mortality assumptions	RP-200 mortality tables (combined table for healthy post-retirements, Employee table for active members, and disabled table for disabled retirees before retirement age) with projections to 2018 using scale AA.
Experience study date	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 & Mitigation	21.50	1.79
Credit Oriented Fixed Income	15.00	5.77
Real Assets	20.00	7.35
Total	100.00%	

**Discount rate:** The discount rate used to measure the total pension liability was 7.48 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 7.48% 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.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 10. Pension Plan - Public Employees Retirement Association (continued)**

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.*** The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present City of Espanola's net pension liability in each PERA Fund Division that City of Espanola participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

<b>PERA Fund Municipal General Division</b>	<b>1% Decrease (6.48%)</b>	<b>Current Discount Rate (7.48%)</b>	<b>1% Increase (8.48%)</b>
City of Española's proportionate share of the net pension liability	\$ 10,106,716	\$ 6,778,886	\$ 4,018,616
<b>PERA Fund Municipal Police Division</b>	<b>1% Decrease (6.48%)</b>	<b>Current Discount Rate (7.48%)</b>	<b>1% Increase (8.48%)</b>
City of Española's proportionate share of the net pension liability	\$ 4,755,710	\$ 3,232,432	\$ 1,986,569
<b>PERA Fund Municipal Fire Division</b>	<b>1% Decrease (6.48%)</b>	<b>Current Discount Rate (7.48%)</b>	<b>1% Increase (8.48%)</b>
City of Española's proportionate share of the net pension liability	\$ 4,401,221	\$ 3,364,861	\$ 2,513,600

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

**Payables to the pension plan.** There were no unpaid contractually required employer contributions outstanding to PERA at June 30, 2017. Contractually required contributions are remitted to PERA monthly for the previous month's withholdings. Accrued payroll includes the employer's portion of retirement contributions related to employee services as of June 30, 2017 but paid in July 2017.

**NOTE 11. Post Employment Benefits -State Retiree Health Care Plan**

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

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 11. Post Employment Benefits –State Retiree Health Care Plan (continued)**

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

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The City's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$111,345, \$112,483, and \$112,073, respectively which equal the required contributions for each year.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 12. Federal and State Grants**

In the normal course of operations, the City 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 13. Landfill Closure and Post Closure Care Costs**

State and Federal laws and regulations require that the City place a final cover on its landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. The landfill was closed as of June 1, 2003. The estimated liability for landfill closure and post closure care costs is \$220,000 as of June 30, 2017. However, the actual cost of closure and post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. Financial assurance requirements are limited to sampling and cover maintenance during the post-closure period that are paid by user charges. The City is responsible for these costs through 2033.

During fiscal year 2016 management changed its estimated cost for closing the landfill. The estimated cost of monitoring the ground water, soil, and gas each year is estimated to be \$13,750 compared with \$30,061 in the previous year. This resulted in a \$307,348 decrease in landfill liability during fiscal year 2016. The amortization of the liability is reported in the Statement of Revenues, Expenses and Changes in Net Position at Exhibit D-2.

**NOTE 14. Prior Period Fund Balance/Net Position Restatement**

Restatements to correct balances were made to the governmental activities and governmental funds as follows:

Fund Restatement:

	<b>General Fund</b>
Fund balance	\$ 4,755,945
Fund balance, restatement	624,812
Fund balance, as restated	\$ 5,380,757

Governmental Activities Restatement:

	<b>Governmental Activities</b>
Net position, beginning	\$ 11,288,250
Net position, restatement	624,812
Net position, as restated	\$ 11,913,062



**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 14. Prior Period Fund Balance/Net Position Restatement (continued)**

The governmental activities net position and General Fund beginning fund balance were restated by a net of \$624,812 due to improper recording of accrued payroll in the prior year.

**NOTE 15. Subsequent Events**

The date to which events occurring after June 30, 2017, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is December 12, 2017, which is the date on which the financial statements were issued.

**NOTE 16. Concentrations**

The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the City is subject to changes in the specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

**NOTE 17. Restricted Net Position**

The government-wide statement of net position reports \$6,419,283 of restricted net position all of which is restricted by enabling legislation. See pages 37-38 and 76-77 for descriptions of the related restrictions for special revenue, debt service and capital projects funds.

**NOTE 18. Subsequent Pronouncements**

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

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Financial Statements  
June 30, 2017

**NOTE 18. Subsequent Pronouncements**

In March 2017, GASB Statement No. 85, *Omnibus 2017*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The City is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to in-substance defeasance of debt using only existing resources. The City does not expect the pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87, *Leases*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**

City of Española

Schedule I

Page 1 of 3

Schedule of the City's Proportionate Share of the Net Pension Liability  
of PERA Fund Municipal General Division  
Public Employees Retirement Association (PERA) Plan  
Last 10 Fiscal Years\*

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>Measurement</b>	<b>Measurement</b>	<b>Measurement</b>
	<b>Date</b>	<b>Date</b>	<b>Date</b>
	<b>(As of and for</b>	<b>(As of and for</b>	<b>(As of and for</b>
	<b>the Year Ended</b>	<b>the Year Ended</b>	<b>the Year Ended</b>
	<b>June 30, 2016)</b>	<b>June 30, 2015)</b>	<b>June 30, 2014)</b>
	<u>0.4243%</u>	<u>0.4550%</u>	<u>0.4295%</u>
Proportion of the net pension liability			
Proportionate share of the net pension liability	\$ 6,778,886	\$ 4,689,079	\$ 3,350,561
Covered payroll	\$ 3,801,920	\$ 3,796,076	\$ 3,511,876
Proportionate share of the net pension liability as a percentage of its covered payroll	178.30%	123.52%	95.41%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	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, City of Española will present information for those years for which information is available.

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

**STATE OF NEW MEXICO**

City of Española

Schedule I

Page 2 of 3

Schedule of the City's Proportionate Share of the Net Pension Liability  
of PERA Fund Municipal Police Division  
Public Employees Retirement Association (PERA) Plan  
Last 10 Fiscal Years\*

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>Measurement</b>	<b>Measurement</b>	<b>Measurement</b>
	<b>Date</b>	<b>Date</b>	<b>Date</b>
	<b>(As of and for</b>	<b>(As of and for</b>	<b>(As of and for</b>
	<b>the Year Ended</b>	<b>the Year Ended</b>	<b>the Year Ended</b>
	<b>June 30, 2016)</b>	<b>June 30, 2015)</b>	<b>June 30, 2014)</b>
	<u>0.4381%</u>	<u>0.4481%</u>	<u>0.4526%</u>
Proportion of the net pension liability			
Proportionate share of the net pension liability	\$ 3,232,432	\$ 2,154,716	\$ 1,475,427
Covered payroll	\$ 907,206	\$ 878,776	\$ 859,517
Proportionate share of the net pension liability as a percentage of its covered payroll	356.31%	245.20%	171.66%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	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, City of Española will present information for those years for which information is available.

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

**STATE OF NEW MEXICO**

City of Española

Schedule I

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Schedule of the City's Proportionate Share of the Net Pension Liability  
of PERA Fund Municipal Fire Division  
Public Employees Retirement Association (PERA) Plan  
Last 10 Fiscal Years\*

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>Measurement</b>	<b>Measurement</b>	<b>Measurement</b>
	<b>Date</b>	<b>Date</b>	<b>Date</b>
	<b>(As of and for</b>	<b>(As of and for</b>	<b>(As of and for</b>
	<b>the Year Ended</b>	<b>the Year Ended</b>	<b>the Year Ended</b>
	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>	<b><u>June 30, 2014</u></b>
Proportion of the net pension liability	0.5044%	0.5109%	0.4779%
Proportionate share of the net pension liability	\$ 3,364,861	\$ 2,636,848	\$ 1,994,752
Covered payroll	\$ 610,197	\$ 581,000	\$ 544,379
Proportionate share of the net pension liability as a percentage of its covered payroll	551.44%	453.85%	366.43%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	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, City of Española will present information for those years for which information is available.

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

**STATE OF NEW MEXICO**  
City of Española  
Schedule of Employer Contributions  
Public Employees Retirement Association (PERA) Plan  
PERA Municipal General Division  
Last 10 Fiscal Years\*

	<b>As of and for the Year Ended June 30, 2017</b>	<b>As of and for the Year Ended June 30, 2016</b>	<b>As of and for the Year Ended June 30, 2015</b>
Contractually required contributions	\$ 378,510	\$ 360,500	\$ 362,525
Contributions in relation to the contractually required contribution	(378,510)	(360,500)	(362,525)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City of Española's covered payroll	\$ 3,963,449	\$ 3,801,920	\$ 3,796,076
Contributions as a percentage of covered payroll	9.6%	9.5%	9.5%

\* 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, City of Española will present information for those years for which information is available.

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

**STATE OF NEW MEXICO**  
City of Española  
Schedule of Employer Contributions  
Public Employees Retirement Association (PERA) Plan  
PERA Municipal Police Division  
Last 10 Fiscal Years\*

	<b>As of and for the Year Ended June 30, 2017</b>	<b>As of and for the Year Ended June 30, 2016</b>	<b>As of and for the Year Ended June 30, 2015</b>
Contractually required contributions	\$ 190,416	\$ 171,462	\$ 165,833
Contributions in relation to the contractually required contribution	(190,416)	(171,462)	(165,833)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City of Española's covered payroll	\$ 1,007,490	\$ 907,206	\$ 878,776
Contributions as a percentage of covered payroll	18.9%	18.9%	18.9%

\* 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, City of Española will present information for those years for which information is available.

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



**STATE OF NEW MEXICO**  
City of Española  
Schedule of Employer Contributions  
Public Employees Retirement Association (PERA) Plan  
PERA Municipal Fire Division  
Last 10 Fiscal Years\*

	<b>As of and for the Year Ended June 30, 2017</b>	<b>As of and for the Year Ended June 30, 2016</b>	<b>As of and for the Year Ended June 30, 2015</b>
Contractually required contributions	\$ 133,154	\$ 132,108	\$ 125,909
Contributions in relation to the contractually required contribution	(133,154)	(132,108)	(125,909)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City of Española's covered payroll	\$ 615,030	\$ 610,197	\$ 581,000
Contributions as a percentage of covered payroll	21.7%	21.7%	21.7%

\* 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, City of Española will present information for those years for which information is available.

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

**STATE OF NEW MEXICO**  
City of Española  
Notes to Required Supplementary Information  
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 FY15 audit available at [http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR\\_12.22.2016\\_FINAL-with-corrections.pdf](http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.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://s3.amazonaws.com/boardaudio/Final-Version-2016-PERA-GASB-68-Report.pdf> See the notes to the financial statements on the CAFR pages 74-76 which summarizes actuarial assumptions and methods effective with the June 30, 2016 valuation.

See independent auditors' report.

## **SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
City of Española  
Nonmajor Governmental Fund Descriptions  
June 30, 2017

**SPECIAL REVENUE FUNDS**

**Recreation** – To account for establishing and maintaining recreational facilities. The source of funds is from the distribution of cigarette taxes pursuant to NMSA 7-1-6.11.

**Teen Court** – To establish and account for grant funding awarded to the City by the New Mexico Department of Health for the purpose of establishing a framework of prevention strategies associated with alcohol, tobacco, and other drug abuse.

**Weed and Seed Grant** – To establish and account for federal grant funding awarded to the City for the maintenance of land. This fund was authorized by City Council.

**Operation Buckle Down** – To establish and account for grant funding awarded to the Police Department by the New Mexico Department of Transportation for the enforcement of occupant protection laws and ordinances aimed at increasing seat belt and proper child restraint usage pursuant to Section 66-7-501 to 66-7-511 NMSA 1978.

**COPS in Schools Grant** – To establish and account for grant funding awarded to the Police Department by the U.S. Department of Justice to provide a School Resource Officer (SRO) Program for the Espanola Public Schools.

**Byrne Justice Assistance Grant** – To establish and account for federal grant funding awarded to the Police Department by the U.S. Department of Justice for non-lethal force options and technology improvements under Grant 2010-SD-B9-006.

**Operation DWI State Grant** – To establish and account for grant funding awarded to the Police Department by the U.S. Department of Transportation for alcohol-impaired driving countermeasures. Source of funds pursuant to 66-7-501 to 66-7-511 NMSA 1978.

**Library Grant** – To account for a grant from the State of New Mexico GO Bond and Grant in Aid to be used for additions to the City's library issued pursuant to Section 18-2-5 NMSA 1978.

**EMS** – To account for grant funds for the City's EMS department pursuant to Section 24-10A-2 NMSA 1978.

**Wildland Grant** – To account for grant funds to be used for wildland protection. This fund was authorized by the City Council.

**Public Safety Grants** – To account for grant funds to be used for public safety, including federal department of justice grant funding.

**High Intensity Drug Trafficking Areas** – To account for federal grant funds provided to the City to address drug trafficking in specially designated areas. This fund was authorized by the City Council.

**E-911 Grant** – To account for monies received from the State of New Mexico under Section 63-9D-1 NMSA 1978 for the enhancement of the 911 Telephone Emergency System.

**Fire Protection** – To account for the operation and maintenance of the City's fire district received pursuant to Section 59A-53-2 NMSA 1978.

**Roads and Streets** – To account for funds used to maintain roads for which the City has responsibility. Financing sources include motor vehicle registration fees and gasoline taxes pursuant to Section 7-13-1 NMSA 1978.

**Law Enforcement Protection** – To account for a grant from the State of New Mexico used for the purchase and repair of equipment as well as training for police personnel pursuant to Section 29-13-7 NMSA 1978

**Fire Discretionary** – To account for the Fire Department's discretionary operations.

**STATE OF NEW MEXICO**  
City of Española  
Nonmajor Governmental Fund Descriptions  
June 30, 2017

**SPECIAL REVENUE FUNDS (CONTINUED)**

**Lodgers' Tax** – To account for lodgers' taxes used to promote the City pursuant to Section 3-38-21 NMSA 1978.

**Lodgers' Tax Promotional** – To account for lodgers' taxes used to promote the City pursuant to Section 3-38-21 NMSA 1978.

**Fiesta Council** – To account for funds raised by the Fiesta Council to put on the Espanola Fiestas.

**U.S. Bureau of Reclamation** – To account for grant funds to be used for emergency drought assistance.

**NMDOT Litter Control and Beautification** – To account for the establishment of a local Keep America Beautiful Program to aid in litter control and beautification projects pursuant to Sections 67-16-1 to 67-16-14 NMSA 1978.

**CAPITAL PROJECTS FUNDS**

**NMLA Capital Improvements Grant** – To establish and account for a capital replacement program.

**NM DOT Grant** – To account for grants received from the State of New Mexico's Department of Transportation.

**Infrastructure Projects**– To accounts for City infrastructure capital projects.

**Federal W/WW Project Grant** – To complete the wastewater project and to complete water projects.

**State Water Project Grants** – To establish and account for a State water capital project.

**State Agency on Aging Grants** – To account for the renovation of the senior building and to purchase equipment for the senior center.

**GRT Asset Replacement** – To capital projects GRT revenues for asset replacement initiative.

**DEBT SERVICE FUNDS**

**NMFA Debt Service** – To account for the activities related to the debt intercept payments to the State of New Mexico.

**Trust Service Fund** – To account for trust monies related to debt of the City.

**NMFA PPR Equipment Project Loan** – To account for debt used to purchase and equip police vehicles.

**USDA Loan/Police Department** – To account for debt used to purchase police vehicles and equipment.

**STATE OF NEW MEXICO**  
City of Española  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017

	<b>Special Revenue</b>			
	<b>Recreation</b>	<b>Teen Court</b>	<b>Weed and Seed Grant</b>	<b>Operation Buckle Down</b>
<i>Assets</i>				
Cash and cash equivalents	\$ 584	\$ 25,760	\$ 535	\$ 158
Investments	-	-	-	-
Receivables:				
Other receivables	-	-	-	-
Due from other funds	-	-	-	-
<i>Total assets</i>	<b>\$ 584</b>	<b>\$ 25,760</b>	<b>\$ 535</b>	<b>\$ 158</b>
<i>Liabilities</i>				
Accounts payable	\$ -	\$ 2,000	\$ -	\$ -
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<b>-</b>	<b>2,000</b>	<b>-</b>	<b>-</b>
<i>Fund balances</i>				
Spendable				
Restricted for:				
Maintenance of roads	-	-	-	-
Fire departments	-	-	-	-
Culture and recreation	584	-	535	-
Public safety	-	23,760	-	158
Capital projects expenditures	-	-	-	-
Debt service expenditures	-	-	-	-
Unassigned	-	-	-	-
<i>Total fund balances</i>	<b>584</b>	<b>23,760</b>	<b>535</b>	<b>158</b>
<i>Total liabilities and fund balances</i>	<b>\$ 584</b>	<b>\$ 25,760</b>	<b>\$ 535</b>	<b>\$ 158</b>

See independent auditors' report.

**Special Revenue**

<b>COPS in Schools Grant</b>	<b>Byrne Justice Assistance Grant</b>	<b>Operation DWI State Grant</b>	<b>Library Grant</b>	<b>EMS</b>
\$ 40,000	\$ -	\$ 3,739	\$ 54,027	\$ 11,713
-	-	-	-	-
-	21,641	102	-	11,571
-	10,853	-	-	-
<u>\$ 40,000</u>	<u>\$ 32,494</u>	<u>\$ 3,841</u>	<u>\$ 54,027</u>	<u>\$ 23,284</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,950
-	-	-	-	-
-	10,853	-	-	-
-	10,853	-	-	1,950
-	-	-	-	-
-	-	-	-	-
-	-	-	54,027	-
40,000	21,641	3,841	-	21,334
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>40,000</u>	<u>21,641</u>	<u>3,841</u>	<u>54,027</u>	<u>21,334</u>
<u>\$ 40,000</u>	<u>\$ 32,494</u>	<u>\$ 3,841</u>	<u>\$ 54,027</u>	<u>\$ 23,284</u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017

	<b>Special Revenue</b>			
	<b>Wildland Grant</b>	<b>Public Safety Grants</b>	<b>High Intensity Drug Trafficking Areas</b>	<b>E-911 Grant</b>
<i>Assets</i>				
Cash and cash equivalents	\$ 29,915	\$ 4,917	\$ 46,183	\$ -
Investments	-	-	-	-
Receivables:				
Other receivables	-	-	37,948	-
Due from other funds	-	-	-	-
<i>Total assets</i>	<u>\$ 29,915</u>	<u>\$ 4,917</u>	<u>\$ 84,131</u>	<u>\$ -</u>
<i>Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ -	\$ 5,514
Accrued payroll	-	-	2,131	57,390
Due to other funds	-	-	82,000	40,695
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>84,131</u>	<u>103,599</u>
<i>Fund balances</i>				
Spendable				
Restricted for:				
Maintenance of roads	-	-	-	-
Fire departments	-	-	-	-
Culture and recreation	29,915	-	-	-
Public safety	-	4,917	-	-
Capital projects expenditures	-	-	-	-
Debt service expenditures	-	-	-	-
Unassigned	-	-	-	(103,599)
<i>Total fund balances</i>	<u>29,915</u>	<u>4,917</u>	<u>-</u>	<u>(103,599)</u>
<i>Total liabilities and fund balances</i>	<u>\$ 29,915</u>	<u>\$ 4,917</u>	<u>\$ 84,131</u>	<u>\$ -</u>

See independent auditors' report.



**Special Revenue**

<u>Fire Protection</u>	<u>Roads and Streets</u>	<u>Law Enforcement Protection</u>	<u>Fire Discretionary</u>	<u>Lodgers' Tax</u>
\$ 293,126	\$ -	\$ 28,055	\$ 13,458	\$ 12,663
-	-	-	-	-
-	53,798	-	-	1,547
-	7,689	-	-	-
<u>\$ 293,126</u>	<u>\$ 61,487</u>	<u>\$ 28,055</u>	<u>\$ 13,458</u>	<u>\$ 14,210</u>
\$ 11,845	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	7,683	-	-	-
<u>11,845</u>	<u>7,683</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	53,804	-	-	-
281,281	-	-	-	-
-	-	-	-	14,210
-	-	28,055	13,458	-
-	-	-	-	-
-	-	-	-	-
<u>281,281</u>	<u>53,804</u>	<u>28,055</u>	<u>13,458</u>	<u>14,210</u>
<u>\$ 293,126</u>	<u>\$ 61,487</u>	<u>\$ 28,055</u>	<u>\$ 13,458</u>	<u>\$ 14,210</u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017

	<b>Special Revenue</b>			
	<b>Lodgers' Tax Promotional</b>	<b>Fiesta Council</b>	<b>U.S. Bureau of Reclamation</b>	<b>NMDOT Litter Control and Beautification</b>
<i>Assets</i>				
Cash and cash equivalents	\$ 56,990	\$ 31,738	\$ 34,358	\$ -
Investments	-	-	-	-
Receivables:				
Other receivables	-	-	-	31,805
Due from other funds	-	-	-	-
<i>Total assets</i>	<b>\$ 56,990</b>	<b>\$ 31,738</b>	<b>\$ 34,358</b>	<b>\$ 31,805</b>
<i>Liabilities</i>				
Accounts payable	\$ -	\$ 3,875	\$ -	\$ -
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	19,180
<i>Total liabilities</i>	<b>-</b>	<b>3,875</b>	<b>-</b>	<b>19,180</b>
<i>Fund balances</i>				
Spendable				
Restricted for:				
Maintenance of roads	-	-	-	-
Fire departments	-	-	-	-
Culture and recreation	56,990	27,863	34,358	12,625
Public safety	-	-	-	-
Capital projects expenditures	-	-	-	-
Debt service expenditures	-	-	-	-
Unassigned	-	-	-	-
<i>Total fund balances</i>	<b>56,990</b>	<b>27,863</b>	<b>34,358</b>	<b>12,625</b>
<i>Total liabilities and fund balances</i>	<b>\$ 56,990</b>	<b>\$ 31,738</b>	<b>\$ 34,358</b>	<b>\$ 31,805</b>

See independent auditors' report.

**Capital Projects**

<b>NMLA Capital Improvements Grant</b>	<b>NM DOT Grant</b>	<b>Infrastructure Projects</b>	<b>Federal W/WW Project Grant</b>	<b>State Water Project Grants</b>
\$ 41,321	\$ -	\$ 1,114,245	\$ -	\$ 29,205
-	-	-	-	-
76,383	18,592	179,880	-	-
-	-	-	105,870	-
<u>\$ 117,704</u>	<u>\$ 18,592</u>	<u>\$ 1,294,125</u>	<u>\$ 105,870</u>	<u>\$ 29,205</u>
\$ 1,584	\$ -	\$ 17,794	\$ -	\$ -
-	-	-	-	-
116,120	18,592	-	9,459	-
<u>117,704</u>	<u>18,592</u>	<u>17,794</u>	<u>9,459</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	1,276,331	96,411	29,205
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>1,276,331</u>	<u>96,411</u>	<u>29,205</u>
<u>\$ 117,704</u>	<u>\$ 18,592</u>	<u>\$ 1,294,125</u>	<u>\$ 105,870</u>	<u>\$ 29,205</u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017

	<u>Capital Projects</u>		<u>Debt Service</u>	
	<u>State Agency on Aging Grants</u>	<u>GRT Asset Replacement</u>	<u>NMFA Debt Service</u>	<u>Trust Service Fund</u>
<i>Assets</i>				
Cash and cash equivalents	\$ -	\$ 299,974	\$ 203,710	\$ 3
Investments	-	-	39,902	-
Receivables:				
Other receivables	5,066	-	-	-
Due from other funds	-	-	-	-
<i>Total assets</i>	<u>\$ 5,066</u>	<u>\$ 299,974</u>	<u>\$ 243,612</u>	<u>\$ 3</u>
<i>Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Due to other funds	5,066	-	-	-
<i>Total liabilities</i>	<u>5,066</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>				
Spendable				
Restricted for:				
Maintenance of roads	-	-	-	-
Fire departments	-	-	-	-
Culture and recreation	-	-	-	-
Public safety	-	-	-	-
Capital projects expenditures	-	299,974	-	-
Debt service expenditures	-	-	243,612	3
Unassigned	-	-	-	-
<i>Total fund balances</i>	<u>-</u>	<u>299,974</u>	<u>243,612</u>	<u>3</u>
<i>Total liabilities and fund balances</i>	<u>\$ 5,066</u>	<u>\$ 299,974</u>	<u>\$ 243,612</u>	<u>\$ 3</u>

See independent auditors' report.

<b>Debt Service</b>		
<b>NMFA PPR Equipment Project Loan</b>	<b>USDA Loan / Police Department</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 249,604	\$ -	\$ 2,625,981
366,916	-	406,818
-	-	438,333
-	-	124,412
<b>\$ 616,520</b>	<b>\$ -</b>	<b>\$ 3,595,544</b>
\$ -	\$ -	\$ 44,562
-	-	59,521
-	60	309,708
-	60	413,791
-	-	53,804
-	-	281,281
-	-	231,107
-	-	157,164
-	-	1,701,921
616,520	-	860,135
-	(60)	(103,659)
<b>616,520</b>	<b>(60)</b>	<b>3,181,753</b>
<b>\$ 616,520</b>	<b>\$ -</b>	<b>\$ 3,595,544</b>

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2017

	<b>Special Revenue</b>			
	<b>Recreation</b>	<b>Teen Court</b>	<b>Weed and Seed Grant</b>	<b>Operation Buckle Down</b>
<i>Revenues</i>				
Taxes:				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	16,900	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	-	16,900	-	-
<i>Expenditures</i>				
Current:				
General government	-	-	-	-
Public safety	-	16,689	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	-	16,689	-	-
<i>Excess (deficiency) of revenues over expenditures</i>	-	211	-	-
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net change in fund balances</i>	-	211	-	-
<i>Fund balances - beginning of year</i>	584	23,549	535	158
<i>Fund balances - end of year</i>	\$ 584	\$ 23,760	\$ 535	\$ 158

See independent auditors' report.

**Special Revenue**

<b>COPS in Schools Grant</b>	<b>Byrne Justice Assistance Grant</b>	<b>Operation DWI State Grant</b>	<b>Library Grant</b>	<b>EMS</b>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	32,380	-	-	-
-	-	-	-	-
40,000	-	637	60,000	25,908
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>40,000</u>	<u>32,380</u>	<u>637</u>	<u>60,000</u>	<u>25,908</u>
-	-	-	-	-
-	10,739	610	-	11,862
-	-	-	-	-
-	-	-	29,174	-
-	-	-	18,782	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>10,739</u>	<u>610</u>	<u>47,956</u>	<u>11,862</u>
<u>40,000</u>	<u>21,641</u>	<u>27</u>	<u>12,044</u>	<u>14,046</u>
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
40,000	21,641	27	12,044	14,046
-	-	3,814	41,983	7,288
<u>\$ 40,000</u>	<u>\$ 21,641</u>	<u>\$ 3,841</u>	<u>\$ 54,027</u>	<u>\$ 21,334</u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2017

	<b>Special Revenue</b>			
	<b>Wildland Grant</b>	<b>Public Safety Grants</b>	<b>High Intensity Drug Trafficking Areas</b>	<b>E-911 Grant</b>
<i>Revenues</i>				
<i>Taxes</i>				
Gross receipts	\$ -	\$ -	\$ -	\$ 900,001
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
<i>Intergovernmental income:</i>				
Federal operating grants	-	1,117	100,859	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Investment income	-	-	-	1,613
Miscellaneous	-	-	42	65,872
<b>Total revenues</b>	<b>-</b>	<b>1,117</b>	<b>100,901</b>	<b>967,486</b>
<i>Expenditures</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	1,117	100,901	1,069,502
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
<i>Debt service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>1,117</b>	<b>100,901</b>	<b>1,069,502</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(102,016)</b>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Net change in fund balances</i>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(102,016)</b>
<i>Fund balances - beginning of year</i>	<b>29,915</b>	<b>4,917</b>	<b>-</b>	<b>(1,583)</b>
<b>Fund balances - end of year</b>	<b>\$ 29,915</b>	<b>\$ 4,917</b>	<b>\$ -</b>	<b>\$ (103,599)</b>

See independent auditors' report.



**Special Revenue**

<u>Fire Protection</u>	<u>Roads and Streets</u>	<u>Law Enforcement Protection</u>	<u>Fire Discretionary</u>	<u>Lodgers' Tax</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	359,433	-	-	-
-	-	-	-	25,283
-	-	-	-	-
-	-	-	-	-
340,964	-	32,000	-	-
-	-	-	-	-
-	3,970	-	-	-
1,169	-	-	-	-
750	-	-	-	-
<u>342,883</u>	<u>363,403</u>	<u>32,000</u>	<u>-</u>	<u>25,283</u>
-	-	-	-	-
221,432	-	16,359	-	-
-	306,375	-	-	-
-	-	-	-	400
42,983	-	-	-	-
55,129	-	-	-	-
4,487	-	-	-	-
<u>324,031</u>	<u>306,375</u>	<u>16,359</u>	<u>-</u>	<u>400</u>
18,852	57,028	15,641	-	24,883
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>(15,641)</u>	<u>-</u>	<u>(13,500)</u>
<u>-</u>	<u>-</u>	<u>(15,641)</u>	<u>-</u>	<u>(13,500)</u>
18,852	57,028	-	-	11,383
<u>262,429</u>	<u>(3,224)</u>	<u>28,055</u>	<u>13,458</u>	<u>2,827</u>
<u>\$ 281,281</u>	<u>\$ 53,804</u>	<u>\$ 28,055</u>	<u>\$ 13,458</u>	<u>\$ 14,210</u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2017

	<b>Special Revenue</b>			
	<b>Lodgers' Tax Promotional</b>	<b>Fiesta Council</b>	<b>U.S. Bureau of Reclamation</b>	<b>NMDOT Litter Control and Beautification</b>
<i>Revenues</i>				
<i>Taxes</i>				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
<i>Intergovernmental income:</i>				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	43,534
State capital grants	-	-	-	-
Charges for services	-	8,787	-	-
Investment income	-	-	-	-
Miscellaneous	-	24,394	-	-
<i>Total revenues</i>	<u>-</u>	<u>33,181</u>	<u>-</u>	<u>43,534</u>
<i>Expenditures</i>				
<i>Current:</i>				
General government	-	-	4,499	-
Public safety	-	-	-	-
Public works	-	-	-	30,909
Culture and recreation	-	27,736	-	-
Capital outlay	-	-	-	-
<i>Debt service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>27,736</u>	<u>4,499</u>	<u>30,909</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>5,445</u>	<u>(4,499)</u>	<u>12,625</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	-	5,445	(4,499)	12,625
<i>Fund balances - beginning of year</i>	<u>56,990</u>	<u>22,418</u>	<u>38,857</u>	<u>-</u>
<i>Fund balances - end of year</i>	<u>\$ 56,990</u>	<u>\$ 27,863</u>	<u>\$ 34,358</u>	<u>\$ 12,625</u>

See independent auditors' report.

**Capital Projects**

<b>NMLA Capital Improvements Grant</b>	<b>NM DOT Grant</b>	<b>Infrastructure Projects</b>	<b>Federal W/WW Project Grant</b>	<b>State Water Project Grants</b>
\$ -	\$ -	\$ 962,874	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	1,193,643	-
-	-	-	-	-
73,194	16,688	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>73,194</u>	<u>16,688</u>	<u>962,874</u>	<u>1,193,643</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
42,660	16,688	734,307	1,091,358	-
-	-	-	-	-
30,534	-	400,466	-	-
-	-	-	-	-
-	-	-	-	-
<u>73,194</u>	<u>16,688</u>	<u>1,134,773</u>	<u>1,091,358</u>	<u>-</u>
-	-	(171,899)	102,285	-
-	-	-	-	-
-	-	(585,189)	-	-
-	-	(585,189)	-	-
-	-	(757,088)	102,285	-
-	-	2,033,419	(5,874)	29,205
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,276,331</u>	<u>\$ 96,411</u>	<u>\$ 29,205</u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2017

	<u>Capital Projects</u>		<u>Debt Service</u>	
	<u>State Agency on Aging Grants</u>	<u>GRT Asset Replacement</u>	<u>NMFA Debt Service</u>	<u>Trust Service Fund</u>
<i>Revenues</i>				
Taxes				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	86,651	-	-	-
Charges for services	-	-	-	-
Investment income	-	-	786	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>86,651</u>	<u>-</u>	<u>786</u>	<u>-</u>
<i>Expenditures</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	86,651	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	35,245	-
Interest	-	-	(957)	-
<i>Total expenditures</i>	<u>86,651</u>	<u>-</u>	<u>34,288</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(33,502)</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	82,433	-
Transfers out	-	-	(13,591)	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>68,842</u>	<u>-</u>
<i>Net change in fund balances</i>	-	-	35,340	-
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>299,974</u>	<u>208,272</u>	<u>3</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ 299,974</u>	<u>\$ 243,612</u>	<u>\$ 3</u>

See independent auditors' report.

<u>Debt Service</u>		
<u>NMFA PPR Equipment Project Loan</u>	<u>USDA Loan / Police Department</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ 1,862,875
-	-	359,433
-	-	25,283
-	-	134,356
-	-	1,193,643
-	-	559,943
-	-	176,533
-	-	12,757
5,618	-	9,186
-	-	91,058
<u>5,618</u>	<u>-</u>	<u>4,425,067</u>
-	-	4,499
-	-	1,449,211
-	-	2,308,948
-	-	57,310
-	-	492,765
310,000	14,400	414,774
<u>76,574</u>	<u>1,301</u>	<u>81,405</u>
<u>386,574</u>	<u>15,701</u>	<u>4,808,912</u>
<u>(380,956)</u>	<u>(15,701)</u>	<u>(383,845)</u>
387,753	15,641	485,827
<u>-</u>	<u>-</u>	<u>(627,921)</u>
<u>387,753</u>	<u>15,641</u>	<u>(142,094)</u>
6,797	(60)	(525,939)
<u>609,723</u>	<u>-</u>	<u>3,707,692</u>
<u>\$ 616,520</u>	<u>\$ (60)</u>	<u>\$ 3,181,753</u>

See independent auditors' report.

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## **SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
City of Española  
Schedule of Deposit and Investment Accounts  
June 30, 2017

Bank Name/Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks and other reconciling items	Book Balance
<b>Century Bank</b>					
Bond Court	Checking	\$ 68,256	\$ 200	\$ -	\$ 68,456
E-911	Checking	227,839	-	1,735	226,104
Fire Fund	Checking	235,119	-	7,321	227,798
General Fund	Checking	1,340,461	55,227	121,857	1,273,831
Online Utility	Checking	3,858,893	7,832	-	3,866,725
Payroll Fund	Checking	16,055	-	11,993	4,062
Restricted Fund	Checking	1,716,212	-	-	1,716,212
Optimal Savings Account	Checking	2,503,006	-	-	2,503,006
Certificate of Deposit	CD	70,000	-	-	70,000
Certificate of Deposit	CD	85,000	-	-	85,000
Certificate of Deposit	CD	15,439	-	-	15,439
Certificate of Deposit	CD	58,929	-	-	58,929
Certificate of Deposit	CD	37,000	-	-	37,000
Certificate of Deposit	CD	6,000	-	-	6,000
<i>Total Century Bank</i>		<u>10,238,210</u>	<u>63,259</u>	<u>142,906</u>	<u>10,158,563</u>
<b>Express Bill Pay</b>					
General Fund - Express Bill Pay	Checking	<u>93,215</u>	<u>2,130</u>	<u>-</u>	<u>95,345</u>
<b>Bank of Albuquerque- Restricted Cash and Cash Equivalents</b>					
Espanola Municipal Infrastructure GR Income Fund	U.S. Treasury Mutual Fund	155,920	-	-	155,920
Espanola Municipal Infrastructure GRT Debt Service Reserve	U.S. Treasury Mutual Fund	376,126	-	-	376,126
<i>Total Bank of Albuquerque</i>		<u>532,046</u>	<u>-</u>	<u>-</u>	<u>532,046</u>
<b>New Mexico Finance Authority - Restricted Cash and Cash Equivalents</b>					
Espanola 1	State Treasurer Debt Service	41,038	-	-	41,038
Espanola 1- Reserve	State Treasurer Debt Service	55,822	-	-	55,822
Espanola 7	State Treasurer Debt Service	19	-	-	19
Espanola 8- Reserve	State Treasurer Debt Service	636,413	-	-	636,413

See independent auditors' report.



<u>Bank Name/Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Deposits in Transit</u>	<u>Outstanding Checks and other reconciling items</u>	<u>Book Balance</u>
<b>New Mexico Finance Authority - Restricted Cash and Cash Equivalents (Continued)</b>					
Espanola 12	State Treasurer Debt Service	133,039	-	-	133,039
Espanola 12 - Reserve	State Treasurer Debt Service	33,954	-	-	33,954
Espanola 13	State Treasurer Debt Service	244,327	-	-	244,327
Espanola 13 - Reserve3	Debt Service	72,283	-	-	72,283
<i>Total New Mexico Finance Authority</i>		<u>1,216,895</u>	<u>-</u>	<u>-</u>	<u>1,216,895</u>
<i>Total</i>		<u>\$ 10,863,471</u>	<u>\$ 65,389</u>	<u>\$ 142,906</u>	\$ 12,002,849
New Mexico State Treasurer Local Government Investment Pool					1,786,216
Add: petty cash					470
Less: returned checks					48,063
<i>Total deposits and investments</i>					<u>\$ 13,741,472</u>
Deposits and investments per financial statements:					
Cash and cash equivalents - Exhibit A-1					\$ 9,531,727
Investments - Exhibit A-1					2,015,584
Restricted cash and cash equivalents - Exhibit A-1					389,877
Restricted investments- Exhibit A-1					1,359,064
Fiduciary funds cash and investments - Exhibit E-1					445,220
<i>Total deposits and investments</i>					<u>\$ 13,741,472</u>

See independent auditors' report.

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STATE OF NEW MEXICO

Schedule IV

City of Española

Schedule of Collateral Pledged by Depository for Public Funds

June 30, 2017

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value at June 30, 2017</u>	<u>Location of Safekeeper</u>
<b>Century Bank</b>					
	San Juan Cnty NM	8/1/2018	798359JG1	\$ 404,596	Federal Home Loan Bank of Dallas, TX
	Santa Fe NM Comnty	8/1/2018	801901JE0	1,721,777	Federal Home Loan Bank of Dallas, TX
	Los Alamos NM Public Sch	8/1/2023	54422NEW2	541,490	Federal Home Loan Bank of Dallas, TX
	San Miguel Cnty	6/1/2020	799108DB8	452,642	Federal Home Loan Bank of Dallas, TX
	Bloomfield NM	9/1/2024	094077KTC	258,573	Federal Home Loan Bank of Dallas, TX
	Santa Fe NM	8/1/2026	802071GYO	411,096	Federal Home Loan Bank of Dallas, TX
	Bernalillo Cnty	7/1/2033	013493CG4	1,387,666	Federal Home Loan Bank of Dallas, TX
<i>Total Pledged Collateral</i>				<u>\$ 5,177,840</u>	

See independent auditors' report.

**STATE OF NEW MEXICO**  
City of Española  
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds  
For the Year Ended June 30, 2017

<b>Assets</b>	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
<i>Judicial:</i>				
Cash	\$ (7,597)	\$ 28,042	\$ 23,910	\$ (3,465)
Assets	<u>\$ (7,597)</u>	<u>\$ 28,042</u>	<u>\$ 23,910</u>	<u>\$ (3,465)</u>
<i>Municipal Court:</i>				
Cash	\$ (748)	\$ -	\$ -	\$ (748)
Assets	<u>\$ (748)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (748)</u>
<i>Bond:</i>				
Cash	\$ 97,252	\$ 102,482	\$ 112,694	\$ 87,040
Assets	<u>\$ 97,252</u>	<u>\$ 102,482</u>	<u>\$ 112,694</u>	<u>\$ 87,040</u>
<i>Utility Deposit Trust:</i>				
Cash	\$ 283,818	\$ 28,332	\$ -	\$ 312,150
Investments	43,000	-	-	43,000
Accounts Receivable	-	586	-	586
Assets	<u>\$ 326,818</u>	<u>\$ 28,918</u>	<u>\$ -</u>	<u>\$ 355,736</u>
<i>Employee Activities:</i>				
Cash	\$ (78)	\$ -	\$ -	\$ (78)
Assets	<u>\$ (78)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (78)</u>
<i>Emergency Fire:</i>				
Cash	\$ 225	\$ -	\$ -	\$ 225
Assets	<u>\$ 225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225</u>

See independent auditors' report.

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Assets</b>				
<i>Fire Donations:</i>				
Cash	\$ 1,145	\$ -	\$ -	\$ 1,145
Assets	<u>\$ 1,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,145</u>
<i>Espanola Beautification:</i>				
Cash	\$ 4,984	\$ -		\$ 4,984
Assets	<u>\$ 4,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,984</u>
<i>Forfeiture:</i>				
Cash	\$ 967	\$ -	\$ -	\$ 967
Assets	<u>\$ 967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 967</u>
<i>Total assets</i>	<u>\$ 422,968</u>	<u>\$ 159,442</u>	<u>\$ 136,604</u>	<u>\$ 445,806</u>
<b>Liabilities</b>				
Bond deposits payable	\$ 88,907	\$ 131,110	\$ 136,604	\$ 83,413
Due to other entities	<u>334,061</u>	<u>28,332</u>	<u>-</u>	<u>362,393</u>
<i>Total liabilities</i>	<u>\$ 422,968</u>	<u>\$ 159,442</u>	<u>\$ 136,604</u>	<u>\$ 445,806</u>

See independent auditors' report.

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## **COMPLIANCE SECTION**

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

**INDEPENDENT AUDITORS' REPORT**

Wayne Johnson  
New Mexico State Auditor  
The City Council  
City of Española  
Española, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the major funds, the aggregate remaining fund information, and the budgetary comparisons of the General Fund and the major special revenue fund of the City of Española (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 12, 2017.

**Internal Control Over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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*.

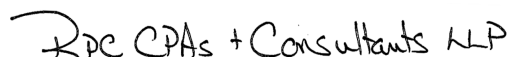
We noted certain matters that are required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of Section 12-6-5 NMSA 1978 findings as items NM 2016-002 and NM 2017-001.

## **The City's Responses to Findings**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



RPC CPAS + Consultants, LLP  
Albuquerque, New Mexico  
December 12, 2017

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**FEDERAL FINANCIAL ASSISTANCE**

**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITORS' REPORT**

Wayne Johnson  
New Mexico State Auditor  
The United States Office of Management and Budget and  
The City Council  
City of Española  
Española, New Mexico

**Report on Compliance for the Major Federal Program**

We have audited the City of Española's (The "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on the Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the its major federal program for the year ended June 30, 2017.

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item FA 2017-001. Our opinion on the major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control over Compliance

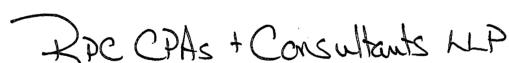
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency identified as item FA 2017-001.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



RPC CPAs + Consultants, LLP  
Albuquerque, New Mexico  
December 12, 2017

**STATE OF NEW MEXICO**  
City of Española  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2017

<u>Funding Source/Grant or Contact Name</u>	<u>Federal CFDA Number</u>	<u>Pass Thru Number</u>	<u>Federal Expenditures</u>	<u>Funds Provided to Subrecipients</u>	<u>Noncash Assistance</u>
<b>U.S. Environmental Protection Agency</b>					
<i>Direct Funding</i>					
Congressionally Mandated Projects	*	66.202	\$ 1,091,358	\$ -	\$ -
Total U. S. Environmental Protection Agency			<u>1,091,358</u>	<u>-</u>	<u>-</u>
<b>Executive Office of the President</b>					
<i>Direct Funding</i>					
High Intensity Drug Trafficking Areas Program		95.001	100,901	-	-
Total Executive Office of the President			<u>100,901</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Justice</b>					
<i>Direct Funding</i>					
Edward Byrne Memorial Justice Assistant Grant (JAG)		16.738	10,739	-	-
Total U.S. Department of Justice			<u>10,739</u>	<u>-</u>	<u>-</u>
<i>Total Federal Financial Assistance</i>			<u>\$ 1,202,998</u>	<u>\$ -</u>	<u>\$ -</u>

(\*) Denotes Major Federal Program

See independent auditors' report.  
See notes to the schedule of expenditures of federal awards.

**STATE OF NEW MEXICO**  
City of Española  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2017

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Espanola (the City) and is presented on a modified accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements except for the proprietary funds. The information in this Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**2. Loans**

The City did not expended federal awards in the form of loans.

**3. 10% de minimus Indirect Cost Rate**

The City did not elect to use the allowed 10% indirect cost rate.

**4. Federally Funded Insurance**

The City has no federally funded insurance.

**Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:**

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 1,202,998
Total expenditures funded by other sources	<u>19,293,249</u>
<i>Total expenditures</i>	<u><u>\$ 20,496,247</u></u>

See independent auditors' report.

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**STATE OF NEW MEXICO**  
City of Española  
Schedule of Findings and Questioned Costs  
June 30, 2017

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

*Financial Statements:*

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

*Federal Awards:*

- |   |            |
|---|------------|
| 1. Type of auditors’ report issued on compliance for major programs   | Unmodified |
| 2. Internal control over major programs:  |            |
| a. Material weaknesses identified?  | None noted |
| b. Significant deficiencies identified not considered to be material weaknesses?                                      | Yes        |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR section 200.516(a)? | Yes        |
| 4. Identification of major programs:  |            |

CFDA Number	Federal Program
66.202	Congressionally Mandated Projects

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee?                                   | No        |

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**None noted**

**SECTION III – FEDERAL AWARD FINDINGS**

**FA 2017-001 – Discrepancy in Match Requirement – Significant Deficiency - Other noncompliance**

Federal Program Information:

Funding agency:	US Environmental Protection Agency
Title:	Congressionally Mandated Projects
CFDA number:	66.202
Federal identification number:	97649501-0
Awarded:	09/25/2003

*Condition:* The City used a 25% matching rate to calculate the payment submitted for reimbursement, rather than the 45% listed under the Program Requirements.

*Criteria:* The grant agreement for this project includes the following clause: The Recipient also agrees to provide forty-five (45) percent of project costs with non-federal matching funds, unless the grant recipient seeks and obtains an approval of exception to this 45 percent match requirement from appropriate EPA headquarters office.

*Effect:* Not complying with the imposed matching requirement is a violation of the grant agreement and may result in future grants being withheld from the City and/or repayment of funds to the federal government.

Questioned Costs: \$37,144.93

*Cause:* The City mistakenly used the matching percentage applicable to a different federal grant in preparation of the reimbursement request and was not caught in review.

*Auditors' Recommendations:* The City should assign an additional staff member to review the matching amount to determine if the percentage is in compliance with the grant agreement and the City contact the oversight agency to resolve the match discrepancy.

*Agency's Response:* Upon identification of the error, the Grants Manager contacted the oversight agency and informed them of the discrepancy and outstanding match amount owed. The City then issued check #102732 in the amount of \$37,144.93, balance owed, on November 28, 2017. In the future, the Administrative Services Director will review the matching amount on invoices to ensure correct percentages are being applied, prior to payment being issued. The Grants Manager and Administrative Services Director are responsible for corrective action. Corrective Action has occurred.

**SECTION IV – SECTION 12-6-5 NMSA FINDINGS**

**NM 2016-002 City's budget does not reconcile to DFA's approved budget – (Finding that does not rise to the level of significant deficiency) (Repeated and Modified)**

*Condition:* For the year ended June 30, 2017, the City's internal budget recorded in its accounting system did not agree or reconcile to the budget approved by the New Mexico Department of Finance and Administration (DFA). The issues continued from prior year in the similar amount of funds. The following schedule details the variance between the DFA's approved budget and the City's budget per its accounting system:

<b>Expenditures</b>			
<b>Fund</b>	<b>City's Budget</b>	<b>DFA's approved budget</b>	<b>Variance</b>
Fire Protection Special Revenue fund	\$ 473,572	\$ 473,508	\$ (64)
Roads and Streets Special Revenue fund	339,444	338,344	(1,100)
Infrastructure Projects Special Revenue fund	2,143,212	1,752,922	(390,290)
Capital Projects Funds	2,481,149	3,122,563	641,414
Debt Service Funds	1,292,640	1,297,650	5,010

*Criteria:* Proper budget tracking requires the City's internal budget within its accounting system to reconcile to the budget approved by DFA. Per Section 6-6-3 NMSA 1978, every local public body shall:

- Keep all the books, records and accounts in their respective offices in the form prescribed by the local government division
- Make all reports as may be required by the local government division, and
- Conform to the rules and regulations adopted by the local government division.

*Cause:* The City did not include all expenditures budgeted for each fund in the budget submitted to DFA for approval. Additionally, a BAR was posted to the wrong fund on DFA's side.

*Effect:* Discrepancies between the budget approved by DFA and the budget used by the City could lead to unauthorized spending and allocation of resources by the City.

*Auditors' Recommendation:* We recommend the City reconcile budgets before submittal to DFA to ensure the BSR reports tie to the DFA report being submitted and that the City ensures that all approved BARs are posted correctly.

*Agency's Response:* The Financial Analyst and Administrative Services Director will monitor all budgets to ensure the proper crosswalk amongst all funds and to ensure DFA approved budgets match what is budgeted in our Accounting system. The Financial Analyst and Administrative Services Director is responsible for corrective action and corrective action will occur by June 30, 2018.

**SECTION IV – SECTION 12-6-5 NMSA FINDINGS (CONTINUED)**

**NM 2017-001 — Error in Partial Day Diem calculation – (Finding that does not rise to the level of significant deficiency)**

*Condition:* Out of ten transaction totaling \$647.92, the following noncompliance with travel and per diem act regulations were noted:

- In two transactions totaling \$136, City employees were not reimbursed for the partial day per diem that was earned, which resulted in an underpayment totaling \$32.
- In one transaction totaling \$40, the partial day per diem was miscalculated, which resulted in an overpayment of \$8.

*Criteria:* The Per Diem and Mileage Act, Section 2.42.2.8B(1), NMSA 1978 requires that public officers public officers or employees who occasionally and irregularly travel shall be reimbursed for travel which does not require overnight lodging, but extends beyond a normal work day as follows:

- (a) for less than 2 hours of travel beyond normal work day, none
- (b) for 2 hours, but less than 6 hours beyond the normal work day, \$12.00
- (c) for 6 six hours, but less than 12 hours beyond the normal work day, \$20.00
- (d) for 12 hours or more beyond the normal work day, \$30.00

*Effect:* The City employees were under/over reimbursed the for partial day per diem.

*Cause:* The City omitted and misunderstood the partial day per diem calculations.

*Auditors' Recommendation:* The City should review the Per Diem and Mileage Act, Section 2.42.2.8(B)1 and make the necessary changes to the City's travel policies and procedures to ensure all reimbursements are in compliance with State Statutes and develop procedures for calculating partial day per diem.

*Agency's Response:* The City of Espanola will review the Per Diem and Mileage Act, Section 2.42.2.8(B)1. DFA Staff will also be providing training to City of Espanola Staff. The Administrative Services Director and Financial Analyst are responsible for the corrective action and corrective action is estimated to occur by June 30, 2018.

**SECTION V – PRIOR YEAR AUDIT FINDINGS**

**Prior Year Audit Findings**

**Financial Statement Findings**

FS 2000-003 Budgetary Noncompliance (Resolved)

FS 2016-001 Inaccurate listing of Accounts Payable (Resolved)

NM 2016-002 City's budget does not reconcile to DFA's approved budget (Repeat and modified)

**STATE OF NEW MEXICO**

City of Española  
Other Disclosures  
June 30, 2017

**Exit Conference**

An exit conference was held on December 12, 2017. In attendance were the following:

**Representing the City of Española:**

Alice A. Lucero	Mayor
Pedro Valdez	Councilor
Mark Trujillo	City Manager
Anna Squires	City Clerk
Jessica Ortiz	Administrative Services Director
Diahann Jacquez	Grants Manager
Steven Trujillo	Water Operations Supervisor

**Representing RPC CPAs + Consultants, LLP:**

Eric Spurlin, CPA	Supervisor
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**Auditor Prepared Financial Statements**

RPC CPAs + Consultants, LLP prepared the GAAP-basis financial statements and footnotes of the City of Española from the original books and records provided to them by the management of the City. The responsibility for the financial statements remains with the City.