

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY**

FINANCIAL STATEMENTS

FOR THE YEAR-ENDED JUNE 30, 2017



INTRODUCTORY SECTION

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EASTERN NEW MEXICO WATER UTILITY AUTHORITY
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FOR THE YEAR ENDED JUNE 30, 2017**

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**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2017**

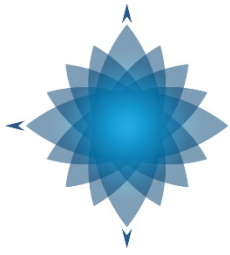
Board of Directors

Member Name	Title	Representing
Ms. Gayla Brumfield	Chairwoman	Clovis, NM
Ms. Sharon King	Co-Chairwoman	Portales, NM
Mr. Wendell Bostwick	Secretary	Curry County, NM
Mr. Chris Bryant	Director	Clovis, NM
Mr. David Lansford	Director	Clovis, NM
Mr. Jim Lucero	Director	Portales, NM
Mr. Durward Dixon	Director	Elida, NM

Key Personnel

Justin Howalt	Executive Director
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FINANCIAL SECTION



Independent Auditor's Report

Wayne Johnson,
New Mexico State Auditor
Board of Directors
Eastern New Mexico Water Utility Authority
Clovis, New Mexico

To the Board of Directors

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison for the general fund of the Eastern New Mexico Water Utility Authority (Authority), as of and for the year-ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparisons for the general 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 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the Authority's financial statements and the budgetary comparisons. The schedule required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of the Authority'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 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 Authority's internal control over financial reporting and compliance.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM

December 12, 2017

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
STATEMENT OF NET POSITION
As of June 30, 2017**

	<u>Governmental Activities</u>
Assets and deferred inflows of resources:	
Assets:	
Cash and cash equivalents	\$ 4,169,784
Receivables	
Other receivables	377
Due from other governments	<u>192,307</u>
Total current assets	<u>4,362,468</u>
Non-current assets:	
Capital assets	30,649,990
Less: Accumulated depreciation	<u>-</u>
Total non-current assets	<u>30,649,990</u>
Total assets	<u>35,012,458</u>
Deferred Outflows of Resources:	
Total deferred outflows of resources	<u>-</u>
Total assets and deferred outflows of resources	\$ <u><u>35,012,458</u></u>
Liabilities, deferred inflows of resources and net position:	
Liabilities:	
Accounts payable	\$ 163,401
Accrued payroll liabilities	6,931
Current portion of compensated absences	620
Current portion of long-term debt	<u>187,328</u>
Total current liabilities	<u>358,280</u>
Non-current liabilities	
Compensated absences	155
Notes payable	<u>2,419,106</u>
Total non-current liabilities	<u>2,419,261</u>
Total liabilities	<u>2,777,541</u>
Deferred inflows of resources:	
Total deferred inflows of resources	<u>-</u>
Net position	
Net Investment in Capital Assets	28,043,556
Unrestricted Net Position	<u>4,191,361</u>
Total net position	<u>32,234,917</u>
Total liabilities, deferred inflows of resources and net position:	\$ <u><u>35,012,458</u></u>

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

STATE OF NEW MEXICO
 EASTERN NEW MEXICO WATER UTILITY AUTHORITY
 STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2017

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes In Net Assets</u>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>
Primary government:				
Public works	\$ 1,276,149	-	614,460	(661,689)
Interest expense	6,983	-	-	(6,983)
Total governmental activities	<u>1,283,132</u>	<u>-</u>	<u>614,460</u>	<u>(668,672)</u>
General revenues:				
Membership dues				1,610,512
Interest income				<u>402</u>
Total general revenues				<u>1,610,914</u>
Changes in net position				942,242
Beginning net position				<u>31,292,675</u>
Net position, end of year				<u>\$ <u>32,234,917</u></u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2017

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Funds</u>
Assets and deferred inflows of resources:			
Assets:			
Cash and cash equivalents	\$ 4,169,784	-	4,169,784
Receivables			
Due from other governments	<u>192,307</u>	-	<u>192,307</u>
Total assets	<u>4,362,468</u>	-	<u>4,362,468</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 4,362,468</u>	<u>-</u>	<u>4,362,468</u>
Liabilities, deferred inflows of resources and fund balances:			
Liabilities:			
Accounts payable	\$ 163,401	-	163,401
Accrued payroll liabilities	<u>6,931</u>	-	<u>6,931</u>
Total liabilities	<u>170,332</u>	-	<u>170,332</u>
Deferred Inflows of Resources:			
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>4,192,136</u>		<u>4,192,136</u>
Total fund balances	<u>4,192,136</u>	<u>-</u>	<u>4,192,136</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 4,362,468</u>	<u>-</u>	<u>4,362,468</u>

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

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
TO THE STATEMENT OF NET POSITION
As of June 30, 2017**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - Governmental funds	\$	4,192,136
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		30,649,990
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:		
Current compensated absences	\$	(620)
Noncurrent compensated absences		(155)
Current notes payable		(187,328)
Noncurrent notes payable	\$	<u>(2,419,106)</u>
		<u>(2,607,209)</u>
Net position for governmental activities	\$	<u><u>32,234,917</u></u>

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

STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Funds</u>
Revenues:			
Intergovernmental revenue			
State grants	\$ 614,460	-	614,460
Interest income	402	-	402
Membership dues	<u>1,610,512</u>	-	<u>1,610,512</u>
Total revenues	<u>2,225,374</u>	-	<u>2,225,374</u>
Expenditures:			
Current:			
Public works	1,178,520	-	1,178,520
Capital outlay	169,775	-	169,775
Debt service			
Principal	-	186,862	186,862
Interest	-	<u>6,983</u>	<u>6,983</u>
Total expenditures	<u>1,348,295</u>	<u>193,845</u>	<u>1,542,140</u>
Excess (deficiency) of revenues over (under) expenditures	877,079	(193,845)	683,234
Other financing sources (uses):			
Proceeds from debt issuance	-	-	-
Transfers in	-	193,845	193,845
Transfers out	<u>(193,845)</u>	-	<u>(193,845)</u>
Total other financing sources (uses):	<u>(193,845)</u>	<u>193,845</u>	<u>-</u>
Net change in fund balances	683,234	-	683,234
Beginning fund balance	<u>3,508,902</u>	-	<u>3,508,902</u>
Ending fund balance	<u>\$ 4,192,136</u>	<u>-</u>	<u>4,192,136</u>

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

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
As of June 30, 2017**

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

Total net change in fund balances-governmental funds	\$	683,234
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Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimates useful lives and reported as depreciation expense.

Capital expenditures recorded as capital outlay or other expenses		67,228
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The issuance of long-term debt (e.g. bonds, notes, capital 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. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

(Increase)/decrease in compensated absences		4,917
Issuance of long-term debt		-
Principal payments on long-term debt		186,862

Rounding		<u>1</u>
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Change in net position of governmental activities	\$	<u><u>942,242</u></u>
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**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
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	Favorable (Unfavorable)
	Original	Final		
Revenues:				
Intergovernmental revenue				
Federal grants	750,000	3,030,000	-	(3,030,000)
State grants	\$ 6,787,668	6,797,774	1,103,845	(5,693,929)
Other grants	-	-	-	-
Interest income	500	500	402	(98)
Membership dues	1,610,511	1,610,511	1,610,512	1
Miscellaneous income	-	-	-	-
Total revenues	9,148,679	11,438,785	2,714,759	(8,724,026)
Expenditures:				
Current:				
Public works	3,530,716	3,530,716	1,197,650	2,333,066
Capital outlay	6,590,643	6,590,643	67,228	6,523,415
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	10,121,359	10,121,359	1,264,878	8,856,481
Excess (deficiency) of revenues over (under) expenditures	(972,680)	1,317,426	1,449,881	(17,580,507)
Other financing sources (uses):				
Proceeds from debt issuance	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(197,900)	(197,900)	(193,845)	(4,055)
Total other financing sources (uses):	(197,900)	(197,900)	(193,845)	(4,055)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(1,170,580)	1,119,526	1,256,036	
Budgeted cash carryover	1,170,580	-	-	
Net change in fund balance	\$ -	1,119,526	1,256,036	
Reconciliation From Budget/Actual to GAAP				
Net change in fund balance (Non-GAAP budgetary basis)			\$ 1,256,036	
Adjustments to revenue for tax accruals and other miscellaneous revenue accruals			(489,385)	
Adjustments to expenditures for accrued wages and expenditures			(83,417)	
Net change in fund balance (GAAP)			\$ 683,234	

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

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Eastern New Mexico Water Utility Authority (Authority) was created under statute as part of the Eastern New Mexico Water Utility Authority Act, section 73-27-1 to 19 NMSA 1978. The City of Clovis served as the fiscal agent for the Authority from fiscal year 2003 to fiscal year 2015. House Bill 15, established the Authority as a special district effective on July 1, 2010.

The Authority was created to:

- Develop and construct a water delivery system based on a funding formula whereby up to seventy-five percent of the overall capital cost of the system is to be paid for by the federal government, fifteen percent is to be paid for by the state of New Mexico and ten percent is to be paid for by the local governments that have the power to appoint members to the board of the Authority; and,
- Deliver water to the local governments with the boundaries of the Authority which will not compete with local governments for rights to deliver water to ultimate end-users.
- Benefit the seven members of the eastern New Mexico rural water authority, including:

City of Clovis	Curry County	Town of Elida
Village of Grady	Town of Melrose	City of Portales
City of Texico		

The board of the Authority shall consist of seven members, each of whom shall reside within the boundaries of the authority

The Authority is legally separate and fiscally independent of other state organizations, has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

A. Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is 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.

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

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB Statement 14.

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 election 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 is conducted within the geographic boundaries of the Authority and is generally available to its citizens.

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 Authority is able to exercise oversight responsibility.

Based upon the application of these criteria, the Authority does not have any component units. Additionally, the Authority was not considered a component unit of another governmental agency during the fiscal year ended June 30, 2017.

B. Basis of Accounting/Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Authority's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Authority accompanied by a total column. Fiduciary activities of the Authority are not included in these statements. Currently the Authority does not conduct any business-type or fiduciary activities.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is

STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Authority include: 1) charges for services and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements.

The Authority reports the general fund as a major governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through federal sources, state sources, membership dues, and other miscellaneous recoveries and revenues. Expenditures include all costs associated with the daily operation of the Authority except for items included in other funds.

In addition, the Authority reports the following other major funds:

Debt Service Fund – The Debt Service Fund accounts for the Authority’s accumulation of resources for the payment of governmental fund debt principal and interest payments.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Authority, are intergovernmental revenues and membership dues. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs followed by general revenues.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated. The Authority currently does not have any funds that meet the criteria to be Proprietary Funds.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues, such as charges for services and tenant rent payments, in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues, such as subsidies/grants and investment earnings, are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

The Authority currently does not have any funds that meet the criteria to be Fiduciary Funds.

Fiduciary fund financial statements include a Statement of Net Position. The Authority's fiduciary funds are Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or "economic resources" measurement focus and the accrual basis of accounting as are the proprietary funds explained above.

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

C. Assets, Liabilities and Equity

Cash Equivalents

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

Receivables and Payables

All receivables are shown net of an allowance for uncollectible accounts. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectible accounts.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption, and are valued at cost using a first-in, first-out (FIFO) method. Expendable supplies are accounted for using the consumption method. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as expenditures when consumed rather than when purchased. The Authority current does not hold any items in inventory.

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

Capital Assets

Capital assets, which include property, plant, equipment, 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 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 cost 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 furniture, fixtures 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. Capital assets that have been disposed of are recorded as deletions on the government-wide financial statements. Accumulated depreciation is adjusted for all deletions.

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.

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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. The total interest expense capitalized by the Authority during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable assets will be determined in future periods as needed.

Analysis of Impairment

Management reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In management's opinion, there is no impairment of such Authority assets at June 30, 2017.

Compensated Absences

Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums depending on their tenure with the Authority. Accumulated unused vacation may be carried from one calendar year to another but the amount of annual leave carry-over cannot exceed 120 hours. Accumulated unused vacation is payable upon retirement or termination from employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is not be reported in the governmental fund balance sheet unless it was due and payable at year end for payments due to retired or terminated employees.

Short-Term Obligations

No short-term debt occurred during the current fiscal year.

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 statement of fund net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

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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, deferred outflows of resources, 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 Authority has no deferred outflows of resources during fiscal year 2017 on the government-wide or fund financial statements.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. 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 Authority has no deferred inflows of resources during the fiscal year 2017 on the government-wide or fund financial statements.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent.

Governmental Fund Financial Statements. In accordance with GASBS No. 54, the Authority classifies fund balances in the governmental funds as follows:

Nonspendable Fund Balance includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal/contractual requirements. Examples are Prepaid Expenses and Inventory.

Spendable Fund Balance includes Restricted, Committed, Assigned, and Unassigned designations:

Restricted includes fund balance amounts that are limited for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are obligated to a specific purpose which are internally imposed by the government through formal action (Ordinances and Resolutions) at the highest level of decision making authority (Board of Directors). These commitments can only be overturned by a like action. Examples are Encumbrances of Construction and Service Contracts, and specific allocation of funds for particular future

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activities.

Assigned includes spendable fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Undesignated excess Fund Balances may be assigned by the Board of Directors for specific purposes through the budget process or agenda items. The assigned designation may be reversed by the Board of Directors at any public meeting.

Unassigned includes residual positive fund balances within the General Fund, which have not been classified within the other above-mentioned categories. Unassigned Fund Balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the Authority's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the Authority's policy to use committed resources first, then assigned, and then unassigned as needed.

The Authority does not have a formal minimum fund balance requirement.

Net Position

Government-wide and Proprietary Fund Financial Statements. The Authority classifies net position in the government-wide and proprietary fund financial statements as follows:

Net Investment in Capital Assets includes the Authority's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Authority typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Authority Council has the authority to revisit or alter this designation.

The government-wide statement of net assets reports no restricted net assets. If there were restricted net assets they should be reviewed for consideration of being restricted by enabling legislation. The enabling legislation is legislation that has been determined to be legally enforceable.

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Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

D. Inter-Fund Transactions

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.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

E. Membership Dues

Membership dues consist of annual assessments of member organizations. Membership dues are determined by a formula established by the Authority based on membership level.

F. Income Taxes

As a local government entity, the Authority is not subject to federal or state income taxes. The Authority is generally no longer subject to examination by federal and state taxing authorities for years prior to 2014. For the year ended June 30, 2017, no interest or penalties were recorded or included in the financial statements.

G. 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.

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NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Authority's fiscal year is the twelve-month period beginning July 1 and ending June 30. Prior to June 1 the Budget Director submits to management a proposed operating budget of estimated revenues, expenditures, and transfers for the ensuing fiscal year for the General Fund. Next the budget is submitted (1) to the New Mexico Department of Finance and Administration for review and approval; and (2) to the Board of Directors for review and enactment of a resolution legally adopting the budget. Once approved, the Board of Directors may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Additionally, the New Mexico Department of Finance and Administration must approve any amendments to the budget.

Budgetary Compliance – Budgetary control is required to be maintained at the individual fund level.

Actual fund revenues may be either over or under the budgeted amounts; however, the variance is required to be reasonable, particularly in the case of over-budgeted revenues. Major over-budgeted revenues require a budget amendment as soon as the extent of the shortage is reasonably ascertainable.

Expenditures may not exceed appropriations at the fund level.

Budget Amendments – Budget increases and decreases can only be accomplished by Board of Director resolution. Similarly, budget transfers must follow the same procedure.

Budgetary Basis – State law prescribes that the Authority's budget be prepared on the basis of cash receipts and cash expenditures. Therefore, budgetary comparisons shown in exhibits are prepared on a cash basis to compare actual revenues and expenditures with a cash basis budget as amended.

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

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2017 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

NOTE 3 – CASH AND CASH EQUIVALENTS

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the Authority. Deposits may

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be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution.

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

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States, or are backed by the full faith and credit of those governments

The Authority maintains cash in one financial institution within Clovis, New Mexico. The Authority's deposits are carried at cost. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the financial institution.

The Authority's cash balances consist of demand deposits. The majority of Authority's cash and investments are pooled. All interest income is accounted for in the related funds. The Authority does not have a deposit policy.

Custodial Credit Risk Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority funds may not be returned. The Authority does not have a deposit policy for custodial risk.

State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit be collateralized by the depository thrift or banking institution. At present, state statutes require that a minimum of fifty percent of uninsured balances on deposit with anyone institution must be collateralized, with higher requirements up to 100% for financially troubled institutions.

Based on the above, the Authority is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to 50% of the public money in each account. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency or political subdivision of the State of New Mexico.

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The following is a summary of the Authority's cash and cash equivalents balances and the exposure to custodial credit risk as of June 30, 2017:

<u>Account name</u>	<u>New Mexico Bank & Trust</u>	<u>Less O/S Checks</u>	<u>Balance Per Financials</u>
General interest bearing checking	\$ 4,171,834	(2,050)	4,169,784
Total cash and equivalents	<u>4,171,834</u>	<u>(2,050)</u>	<u>4,169,784</u>
Total amount on deposit	4,171,834	<u>(2,050)</u>	<u>4,169,784</u>
FDIC coverage	<u>(250,000)</u>		
Total uninsured public funds	3,921,834		
50% collateral requirement (Section 6-10-17 NMSA-1978)	1,960,917		
Pledge security	<u>3,385,713</u>		
Amount (over)/under collateralized	\$ <u>(1,424,796)</u>		

<u>Cuspid</u>	<u>Description/ Maturity</u>	<u>S&P Rating</u>	<u>Coup- on</u>	<u>Original Face</u>	<u>Market Value</u>
First Savings Bank					
<i>Safekeeping Location - Suntrust Bank - Atlanta, GA</i>					
248775C48	DENTON CNTY TEX PERM IMPT BNDS 7/15/2028	AAA	4.25	\$ 2,500,000	2,584,675
67919PED1	OKLAHOMA ST WTR RES BRD 4/1/2028	AAA	5.00	750,000	801,038
				<u>\$ 3,250,000</u>	<u>3,385,713</u>
	Insured through federal depository insurance			\$ 250,000	
	Uninsured, collateralized with securities held by pledging financial institution's trust department or agent in the Authority's name.			3,385,713	
	Uninsured and uncollateralized			<u>536,121</u>	
	Total uninsured deposits			<u>\$ 4,171,834</u>	

NOTE 4 – RECEIVABLES

Receivables as of June 30, 2017 are as follows:

<u>Type</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Receivables</u>
Intergovernmental grants			
State	\$ 192,307	-	192,307
Other	<u>377</u>	-	<u>377</u>
Subtotal	192,684	-	192,684
Less: Allowance for uncollectibles	-	-	-
Net Receivables	<u>\$ 192,684</u>	<u>-</u>	<u>192,684</u>

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NOTE 5 – CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2017 follows. Land, easements, and construction in progress are not subject to depreciation.

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Balance 06/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjust</u>	<u>Balance 06/30/17</u>
Non-depreciable capital assets:					
Land	\$ 180,000	-	-	-	180,000
Perpetual Easements	113,105	67,228	-	-	180,333
Construction in progress	30,289,657	-	-	-	30,289,657
Total non-depreciable capital assets	<u>30,582,762</u>	<u>67,228</u>	<u>-</u>	<u>-</u>	<u>30,649,990</u>
Total capital assets, net of depreciated	<u>\$ 30,582,762</u>	<u>67,228</u>	<u>-</u>	<u>-</u>	<u>30,649,990</u>

NOTE 6 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2017, was as follows:

	<u>Balance June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Amount due within one year</u>
Governmental funds debt					
Compensated absences	\$ 5,693	5,670	(10,588)	775	620
Notes payable	2,793,296	-	(186,862)	2,606,434	187,328
Total governmental activities	<u>\$ 2,798,989</u>	<u>5,670</u>	<u>(197,450)</u>	<u>2,607,209</u>	<u>187,948</u>

Long-term liabilities are liquidated from the general fund via transfer to the debt service fund.

NMFA - WTB-56

In September 2008, the Authority borrowed \$125,000 from the New Mexico Finance Authority. The note matures on June 1, 2028, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$71,483 at June 30, 2017, and equal 0.4% of future estimated membership dues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$6,498 in principal and interest on the aforementioned note.

NMFA - WTB-84

In September 2008, the Authority borrowed \$454,280 from the New Mexico Finance Authority. The note matures on June 1, 2028, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of

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a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$259,783 at June 30, 2017, and equal 1.5% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$23,616 in principal and interest on the aforementioned note.

NMFA - WTB-106

In March 2009, the Authority, borrowed \$905,166 from the New Mexico Finance Authority. The note matures on June 1, 2029, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$557,483 at June 30, 2017, and equal 2.9% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$46,455 in principal and interest on the aforementioned note.

NMFA - WTB-144

In December 2010, the Authority borrowed \$442,500 from the New Mexico Finance Authority. The note matures on June 1, 2030, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$295,235 at June 30, 2017, and equal 1.4% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$22,710 in principal and interest on the aforementioned note.

NMFA - WTB-187

In November 2011, the Authority borrowed \$290,000 from the New Mexico Finance Authority. The note matures on June 1, 2031, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are

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currently paid from membership dues paid to the Authority. The revenues pledged totaled \$208,370 at June 30, 2017, and equal 0.9% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$14,884 in principal and interest on the aforementioned note.

NMFA - WTB-213

In November 2011, the Authority borrowed \$437,163 from the New Mexico Finance Authority. The note matures on June 1, 2031, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$314,110 at June 30, 2017, and equal 1.4% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$22,437 in principal and interest on the aforementioned note.

NMFA - WTB-244

In March 2013, the Authority borrowed \$378,883 from the New Mexico Finance Authority. The note matures on June 1, 2032, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$303,058 at June 30, 2017, and equal 1.3% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$20,204 in principal and interest on the aforementioned note.

NMFA - WTB-273

In May 2014, the Authority borrowed \$400,000 from the New Mexico Finance Authority. The note matures on June 1, 2034, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$349,015 at June 30, 2017, and equal 1.3% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected \$1,610,512 in membership dues, and retired \$20,530 in principal and interest on the aforementioned note.

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NMFA - WTB-314

Subsequent to the end of the fiscal year, in July 2015, the Authority borrowed \$320,000 from the New Mexico Finance Authority. The note matures on June 1, 2035, and carries a 0% interest rate; however, a .25% administrative fee is assessed with each payment. The proceeds of the loan are to be used for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir. The payments of principal and the administrative fees are currently secured with pledged net system revenues of the City of Clovis wastewater utility system and ultimately will be secured and paid from the Authority's net system revenues upon completion of the project. The payments of principal and the administrative fees are currently paid from membership dues paid to the Authority. The revenues pledged totaled \$297,187 at June 30, 2017, and equal 1.0% of future estimated net revenues at their current rate. During the year ended June 30, 2017, the Authority collected 1,610,512 in membership dues, and retired \$16,511 in principal and interest on the aforementioned note.

The annual requirements to amortize the combined NMFA notes outstanding at June 30, 2017, including interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 187,328	6,516	193,844
2019	187,797	6,048	193,845
2020	188,267	5,578	193,845
2021	188,739	5,108	193,847
2022	189,212	4,636	193,848
2022-2026	953,180	16,060	969,240
2027-2031	621,720	4,943	626,663
2032-2036	90,191	400	90,591
Total	<u>\$ 2,606,434</u>	<u>49,289</u>	<u>2,655,723</u>

NOTE 7 – INTERFUND BALANCES AND TRANSFERS

The Authority recorded interfund transfers to reflect activity occurring between funds. Transfers and payments within the Authority are substantially for the purpose of subsidizing operating functions and funding various projects within the Authority. All transfers made during the year were considered routine and were consistent with the general characteristics of the Authority's transfer policy.

The composition of interfund transfers during the year ended June 30, 2017 was as follows:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>
General fund	Debt service fund	\$ <u>193,845</u>

NOTE 8 – PENSION PLAN

The Authority contributes to a defined contribution pension plan adopted under the provision of Internal Revenue Code Section 401. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how

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contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investment on those contributions. As established by local resolution, all employees of the Authority participating in the Deferred Compensation Plan are eligible to participate. The Authority is required to contribute 14% of the employee's gross earnings. Contributions by the Authority belong to the participant upon retirement or termination, provided the vesting requirements have been satisfied.

The vesting provisions for all employees are as follows:

- 30% after 3 years of completed service
- 40% after 4 years of completed service
- 100% after 5 years of completed service

For the years ended June 30, 2017, 2016, and 2015, the Authority's required and actual contributions totaled \$16,442, \$18,864, and \$1,874, respectively.

NOTE 9 – DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by International Authority/County Management Association.

The plan, available to all full-time Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Employees are mandated to contribute a minimum of 3% of their gross salary but may elect to contribute up to 100% of their salary up to a maximum dollar amount of \$18,000 per year into the plan. Eligible employees may also make catch-up contributions totaling \$6,000 per year. All contributions withheld from participant's wages by the Authority have been paid to the plan administrator. For the years ended June 30, 2017, 2016, and 2015, employee contributions withheld and remitted to the plan were \$5,800, \$6,023, and \$669, respectively.

NOTE 10 – PERA PENSION PLAN

The Authority is not participating in the public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978).

NOTE 11 – POST EMPLOYMENT BENEFITS

The Retiree Health Care Act, Chapter IV, Article 7C NMSA 1978 provides a comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Authority has elected not to participate in the post-employment health insurance plan.

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 12 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Authority carries commercial insurance. Settled claims have not exceeded this commercial coverage in the past year. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2017, the Authority did not have any probable risk of loss.

NOTE 13 – OPERATING LEASES

The Authority has entered into a number of operating leases, which contain cancellation provisions and are subject to annual appropriations. The rent expenditures for these leases were primarily from the General Fund. Future minimum lease payments are:

Fiscal Year		
Ending June 30,	Amount	
2018	\$	12,480
2019		8,480
2020		-
2021		-
2022		-
Total	\$	<u>20,960</u>

Rental payments charged to current operations for the year ended June 30, 2017 totaled \$12,300.

NOTE 14 – CONTINGENCIES

The Authority participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited by the grantor agencies. Management believes that any disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds of the overall financial position of the Authority.

The Authority is party to various legal proceedings, which are the unavoidable results of governmental operations. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Authority’s legal counsel that resolution of these matters will not have a material effect on the financial condition of the Authority.

NOTE 15 – COMMITMENTS

Long Term Project

The Eastern NM Rural Water System is a regional rural water supply project under development in east central New Mexico. The purpose of the project is to provide potable water to eight city and county member agencies for municipal, commercial and industrial use. The project will replace current

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

groundwater supplies from the Ogallala formation of the High Plains Aquifer with a sustainable surface water source (Ute Reservoir). Ute Dam was constructed in 1959 creating Ute Reservoir to store water for these purposes. The project will put this underutilized infrastructure investment to beneficial use. The Project would pipe 16,450 acre-feet of water per year from Ute Reservoir to the eastern New Mexico municipalities of Clovis, Elida, Grady, Melrose, Portales, and Texico. Curry County, Roosevelt County, and Cannon Air Force Base are also participating in the Project. The present population of the Project service area is about 60,000 people. The overall cost of the project is estimated to be \$426,000,000. The project is to be paid for with a combination of federal and state grants, long-term debt issuances, and locally generated membership dues and revenues.

NOTE 16 – FUND DEFICITS AND NON-COMPLIANCE

Deficit Fund Balances

The Authority did not have any funds that had deficit fund balances as of June 30, 2017.

Legal Compliance with Budget

The Authority did not have any funds that exceeded budget at the fund level as of June 30, 2017.

NOTE 17 – EVALUATION OF SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through December 12, 2017, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2017

Description	SHARE Identifier #	Appropriation Period	Original Appropriation	Prior Expend- itures	Current Expend- itures	Approps Expired	Unencumb- ered Balances
Severance Tax Bonds Outstanding*							
Laws 2014 - Chapter 66, Section 16	14-1614	07/01/2014 - 06/30/2018	100,000	-	-	-	100,000
Laws 2015 - Chapter 3, Section 20	15-0522	07/01/2015 - 06/30/2019	110,000	-	-	-	110,000
Laws 2015 - Chapter 3, Section 29	16-A4057	07/01/2016 - 06/30/2020	122,000	-	-	-	122,000
Total severance tax bonds outstanding			<u>332,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,000</u>
Total Amounts			\$ <u>332,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,000</u>

*Revenue associated with severance tax bonds is recognized when eligibility requirements are met.

1. All unencumbered balances may be used during the appropriation period noted above.

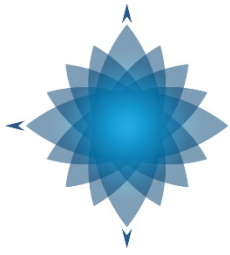
See independent auditor's report.

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING
As of June 30, 2017**

Eastern New Mexico Rural Water System Project

Participants:	ENMWUA and USDOJ Bureau of Reclamation
Responsible party:	ENMWUA
Description	To plan, finance, develop and operate the Eastern New Mexico Rural Water System Project.
Period:	1/20/2011 to 12/31/25
Project costs:	Federal funding - 75% = \$327,000,000 ENMWUA - 25% = \$99,000,000
ENMWUA contributions:	1,610,914
Audit responsibility:	ENMWUA

See independent auditor's report.



**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 Auditor's Report

Wayne Johnson,
New Mexico State Auditor
Board of Directors
Eastern New Mexico Water Utility Authority
Clovis, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund of the Eastern New Mexico Water Utility Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and related budgetary comparison of the Authority, presented as supplementary information, 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 Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM

December 12, 2017

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued | Unmodified |
| 1. | Internal control over financial reporting: | |
| a. | Material weakness identified? | No |
| b. | Significant deficiencies identified not considered to be material weaknesses? | No |
| c. | Noncompliance material to the financial statements noted? | No |
| d. | Other Matters? | No |

SECTION II FINDINGS – FINANCIAL STATEMENTS

Finding	Status of Current and Prior Year Findings	Financial Statement Finding
Prior Year Findings		
None		
Current Year Findings		
None		

**STATE OF NEW MEXICO
EASTERN NEW MEXICO WATER UTILITY AUTHORITY
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2017**

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Presentation: The accompanying financial statements are the responsibility of the Authority and are based on information from the Authority's financial records. Assistance was provided by Integrity Accounting & Consulting to the Authority in preparing the financial statements.

B. EXIT CONFERENCE

The contents of the report for the Eastern New Mexico Water Utility Authority were discussed on December 12, 2017. The following individuals were in attendance.

Eastern New Mexico Water Utility Authority

Robert Thornton – Secretary/Board Member
Maggie Chapman – Interim Executive Director

Integrity Accounting & Consulting

Erick Robinson, CPA, CFE Partner