

**Lower Rio Grande Public  
Water Works Authority**

**Basic Financial Statements and  
Supplementary Information  
for the Year Ended June 30, 2011  
and Independent Auditors' Report**

STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

TABLE OF CONTENTS

---

	Page
DIRECTORY OF OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	4
Statement of Revenues, Expenses and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Basic Financial Statements	8
SUPPLEMENTARY INFORMATION:	
Statement of Revenue, Expenditures and Changes in Cash Balance - Budget and Actual on Budgetary Basis	21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	24
Schedule of Findings and Questioned Costs	27
Exit Conference	32

STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

DIRECTORY OF OFFICIALS  
JUNE 30, 2011

---

Board of Directors

Robert M. Nieto	President
John Holguin	Vice President
Santos Ruiz	Secretary
Rosaura Pargas	Director
Blanca Martinez	Director

Officials

Martin Lopez	General Manager
--------------	-----------------

## INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor  
and the Board of Directors of the  
Lower Rio Grande Public Water Works Authority  
Vado, New Mexico

We have audited the accompanying financial statements of the business-type activities of the Lower Rio Grande Public Water Works Authority, (the Authority), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the major enterprise fund presented as supplemental information in the financial statements for the year ended June 30, 2011 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Lower Rio Grande Public Water Works Authority, as of June 30, 2011, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the major enterprise fund, for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011, 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 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* and should be considered in assessing the results of our audit.

The Authority has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of,

the basic financial statements and the supplemental information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Lower Rio Grande Public Water Works Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*White & Samaniego & Campbell, LLP*

El Paso, Texas

December 1, 2011

## **BASIC FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
 LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

STATEMENT OF NET ASSETS  
 JUNE 30, 2011

---

<b>ASSETS:</b>	
Current assets:	
Grants receivables	\$ 191,875
Accounts receivables, net	225,311
Other assets	<u>11,437</u>
Total current assets	428,623
Noncurrent assets:	
Restricted cash	369,163
Capital assets	<u>21,304,353</u>
Total assets	<u>\$ 22,102,139</u>
<b>LIABILITIES:</b>	
Current liabilities:	
Bank overdraft	\$ 23,174
Accounts payable	141,501
Accrued liabilities and other expenses	115,127
Current portion of long-term debt	38,064
Current portion of accrued compensation absences	<u>39,797</u>
Total current liabilities	357,663
Non-current liabilities:	
Non-current portion of long-term debt	810,425
Customer deposits	<u>42,293</u>
Total noncurrent liabilities	<u>852,718</u>
Total liabilities	<u>1,210,381</u>
<b>NET ASSETS:</b>	
Investment in capital assets, net of related debt	20,455,864
Unrestricted	24,438
Restricted	<u>411,456</u>
Total net assets	<u>20,891,758</u>
Total liabilities and net assets	<u>\$ 22,102,139</u>

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO  
 LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2011

---

Operating revenues	
Service fees	\$ 1,134,522
Activation, connection and installation fees	18,520
Late fees	62,624
Membership fees	800
Other income	<u>41,310</u>
Total operating revenues	1,257,776
Operating expenses	
Bad debt expense	18,244
Bank charges	2,363
Employee benefits	34,889
Materials, supplies, tools and chemicals	156,797
Organizational cost	100,000
Depreciation	618,550
Salaries and wages	506,610
Office Expense	81,521
Miscellaneous	80,811
Taxes and license - other	1,511
Cost of operations	17,462
Insurance	105,048
Maintenance and repairs	48,973
Payroll expense	66,649
Professional fees	82,681
Travel and entertainment	6,726
Utilities	<u>135,938</u>
Total operating expenses	2,064,773
Operating loss	<u>(806,997)</u>
Nonoperating revenues (expenses)	
Grant revenue	154,815
Interest income	520
Rental income	11,628
Other income	2,438
Interest expense	<u>(22,482)</u>
Total nonoperating revenues (expenses)	146,919
Change in net assets	(660,078)
Net assets, beginning of year	<u>-</u>
Net assets contributions	<u>21,551,836</u>
Net assets, end of year	<u>\$ 20,891,758</u>

See accompanying notes to financial statements and independent auditor's report.



STATE OF NEW MEXICO  
 LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2011

---

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 945,200
Cash payments to suppliers and employees	<u>(1,294,458)</u>
Net cash used in operating activities	<u>(349,258)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Cash transferred in merger	861,244
Rental income	11,628
Other income	<u>2,438</u>
Net cash provided by non-operating activities	<u>875,310</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments	(134,694)
Grants	154,815
Acquisition of property and equipment	(155,048)
Interest payments	<u>(22,482)</u>
Net cash provided by financing activities	<u>(157,409)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>520</u>
Net cash used in investing activities	<u>\$ 520</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>369,163</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 369,163</u>
RECONCILIATION TO CASH AND CASH EQUIVALENT AS REPORTED ON THE STATEMENT OF NET ASSETS	
Restricted cash	<u>\$ 369,163</u>
	<u>\$ 369,163</u>

(Continued)

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011

---

RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED IN OPERATING ACTIVITIES:

Operating loss	\$ (806,997)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	618,550
Change in:	
Grants receivable	(120,701)
Accounts receivable	(191,875)
Other assets	14,209
Accounts payable	164,675
Accrued payable and other liabilities	(66,916)
Accrued compensated absences	<u>39,797</u>
Total adjustments	<u>457,739</u>
Net cash used in operating activities	<u>\$ (349,258)</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS

Noncash transactions transferred in the merging of entities:

Account receivables	\$ 104,610
Capital assets, net	21,767,855
Inventory	25,646
Accrual liabilities and other expenses	(224,336)
Long term debt	<u>(983,183)</u>
	<u>\$ 20,690,592</u>

(Concluded)

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lower Rio Grande Public Water Works Authority (the Authority) was organized in 2007 and commenced operations in November of 2010. The Authority supplies water to occupants and residents within the vicinity of the communities of Mesquite and Vado, County of Dona Ana, New Mexico. Sales revenues are generated primarily from water supply sales to domestic and commercial users within these areas.

The Authority has a Board of Directors that consists of five (5) members who are responsible for legislative and fiscal control of the Authority. The Board is also responsible for administrative control of the Authority.

In September 2008, the Board of Directors of Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association, according to the Sanitary Project Act, Section 3-29-20-1, NMSA 1978, approved a plan of merger with (1) Berino Mutual Domestic Water Consumer and Mutual Sewage Works Association, (2) Desert Sands Mutual Domestic Water Consumer Association, (3) La Mesa Mutual Domestic Water Consumers Association, (4) Vado Mutual Domestic Water Consumers Association and (5) Lower Rio Grande Mutual Domestic Water Association all serving unincorporated communities within Dona Ana County, New Mexico. The merger is still ongoing since Mutual Domestic Water Consumer Association and Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association are receiving funds to complete projects that will be transfer to the Authority when the projects are complete.

Reporting Entity

The financial statements of the Authority have been prepared in accordance with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Authority is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Authority may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges and issue bonded debt.

The Authority has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected Authority members are financially accountable. There are no other primary governments with which the Authority Board Members are financially accountable. There are no other primary governments with which the Authority has a significant relationship.

The accounts of the Authority are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating

compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The funds of the Authority are classified as a proprietary fund type. The fund classification and a description of the fund type follows below:

Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as connection, membership and delinquency fees as revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Analysis of Impairment

Management review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2011.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consist of the following:

Customer deposits	\$ 42,293
Construction account	<u>326,870</u>
Total restricted cash	<u>\$ 369,163</u>

Restricted cash consist of non-mandatory reserves set aside within the operating account for outstanding customer deposits. These reserves are not required but are separated by management and a separate Construction Account that has been established as required by the Government into which the proceeds of the loan and grant proceeds from the USDA-RUS are deposited. Withdrawals from the Construction Account were and shall be made only on checks signed by the manager of the Authority as authorized by the Board from time to time, and with prior concurrence of the Government. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed. The end of year balance is \$326,870.

**Budget and Budgetary Accounting**

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

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

**Use of Restricted Funds**

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

**Revenue**

The policy for defining the proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally are not reported as components of operating income.

**Estimates**

The preparation of financial statements in conformity with United States generally accepted accounting principles require the use of management's estimates.

**Allowance for Doubtful Accounts**

Management considers the majority of the accounts receivable as collectible. Any accounts receivable considered uncollectible are not considered material. Accordingly, no allowance for doubtful accounts has been recorded.

**Capital Assets**

Capital assets are recorded at historical costs. Purchase property and equipment in excess of \$5,000 is capitalized. Costs for the new water system and the building include the costs for construction during the current year including costs of engineering, architecture, and drilling costs incurred in the prior year. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Office equipment	10 years
Utility lines, pump station and shed	38 years
Wells	15-20 years
Water system	38 years
Vehicles	5 years

**Net Assets**

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the

determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

*New Governmental Accounting Standards-* In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010, and earlier application is encouraged. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Authority incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In December 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, which is effective upon issuance for certain provisions of the statement and for periods beginning after June 15, 2011 for other provisions. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In December 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 58 Accounting and Financial Reporting for Chapter 9 Bankruptcies, which is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The Authority incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In June 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 59 Financial Instruments Omnibus, which is effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides for the following amendments: National Council on Governmental Accounting Statement 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences, is updated to be consistent with the amendments to GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, regarding certain financial guarantees. Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Statement No. 40, Deposit and Investment Risk Disclosures, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the

requirements to be reported as a 2a7-like pool. Statement 53 is amended to: – Clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance – Provide that financial guarantee contracts included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit – Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53 – Provide that one of the “leveraged yield” criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements, which is effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, which is effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. That Statement supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Statement 62 is effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The objective of this statement is to provide non-conflicting pronouncements between FASB and GASB. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2011, the GASB issued Statement No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position, which is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial

Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2011, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53, which is effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

2. **CASH AND DEPOSITS**

Cash and investments - The Authority is required by New Mexico State Statute (Section 6-10-17) to be 50 percent collateralized. Following is a schedule calculating the requirement and disclosing the pledged securities.

<b>Citizens Bank</b>	<b>Balance Per</b>		
<b><u>Name of Account</u></b>	<b>Bank</b>	<b>Reconciled</b>	<b>Type</b>
	<b>06/30/11</b>	<b>Balance</b>	
Operating account	\$ 53,588	\$ 21,700	Checking
Debt Service	9,298	9,298	Checking
La Mesa Water Project	429	429	Checking
Mesquite Water Sewer	499	499	Checking
Reserve	326,091	326,037	Checking
Certificate of Deposit	<u>11,200</u>	<u>11,200</u>	CD
Total Deposited	401,105	<u>\$ 369,163</u>	
Less: FDIC Coverage	<u>(250,000)</u>		
Uninsured amount	151,105		
50% collateral requirement	75,553		
Pledged securities	<u>-</u>		
Over (under) requirement	<u>\$ (75,553)</u>		

In addition to the above bank balances, the Authority has \$832 in petty cash at June 30, 2011.



### Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$151,105 of the Authority's bank balance of \$401,105, was exposed to custodial credit risk.

### 3. PROPERTY AND EQUIPMENT

The cost basis of property and equipment are stated as follows:

	<u>Beginning Balance</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ -	\$ 258,138	\$ -	\$ -	\$ 258,138
Construction in progress	-	1,028,132	126,272	-	1,154,404
Water rights	-	9,199,171	-	-	9,199,171
Total capital assets not being depreciated	-	10,485,441	126,272	-	10,611,713
Capital Assets, being depreciated					
Buildings	-	773,452	-	-	773,452
Water systems	-	14,698,352	-	-	14,698,352
Furniture, fixtures and equipment	-	497,599	-	-	497,599
Transportation equipment	-	332,645	28,776	-	361,421
Total capital assets , being depreciated	-	16,302,048	28,776	-	16,330,824
Total capital assets	-	26,787,489	155,048	-	26,942,537
Less accumulated depreciation for:					
Buildings	-	326,915	28,724	-	355,639
Water systems	-	4,099,672	521,448	-	4,621,120
Furniture, fixtures and equipment	-	389,969	35,475	-	425,444
Machinery and equipment	-	-	-	-	-
Transportation equipment	-	203,078	32,903	-	235,981
Total accumulated depreciation	-	5,019,634	618,550	-	5,638,184
Total other capital assets, net	<u>\$ -</u>	<u>\$21,767,855</u>	<u>\$ (463,502)</u>	<u>\$ -</u>	<u>\$21,304,353</u>

Depreciation expense was \$618,550 for the year ended June 30, 2011.

### 4. COMPENSATED ABSENCES

Full time employees earn both 4 hours sick leave and 4 hours vacation each biweekly pay period. Employees may carry over a maximum of 240 hours in each category from calendar year to calendar year. As of June 30, 2011, employees had balances of 443 sick leave hours with a value of \$8,143 and 2,150 vacation hours with a value of \$31,654. Upon termination, all accumulated vacation and 1 hour for every 3 accumulated hours for sick leave will be paid to the employee.

5. **LONG TERM DEBT**

Changes in long-term debt during the year ended June 30, 2011 were as follows:

	<u>Balance</u> <u>06/30/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/11</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
NMFA Truck (Desert Sands)	\$ -	\$ 54,715	\$ 10,693	\$ 44,022	\$ 14,274
NMED RIP 88-12R (La Mesa)	-	85,766	14,092	71,674	13,905
USDA RD 91-01 (La Mesa)	-	90,900	860	90,040	1,344
USDA RD 91-06 (Mesquite)	-	301,825	2,135	299,690	3,334
USDA RD 91-07 (Desert Sands)	-	47,479	387	47,092	604
USDA RD 91-16 (Mesquite)	-	298,966	2,995	295,971	4,603
USDA RD 91-02 (Berino)	-	27,994	27,994	-	-
USDA RD 91-02 (Vado)	-	3,227	3,227	-	-
USDA RD 91-06 (Berino)	-	12,692	12,692	-	-
USDA RD 91-09 (Desert Sands)	-	13,903	13,903	-	-
NMED RIP90-08R (Berino)	-	26,532	26,532	-	-
NMED RIP 03-08R (Desert Sands)	-	19,184	19,184	-	-
Compensated absences	-	47,025	7,228	39,797	39,797
	<u>\$ -</u>	<u>\$ 1,030,208</u>	<u>\$ 141,922</u>	<u>\$ 888,286</u>	<u>\$ 77,861</u>

*New Mexico Finance Authority*

On January 22, 2010, Desert Sands Mutual Domestic Water Consumer Association entered into a \$63,438 loan agreement with the New Mexico Finance Authority (NMFA) to finance the purchase of a pickup truck and a utility truck. The loan has a zero percent interest and matures in January 2014. The note is payable in two monthly installments of \$3,172 and forty eight monthly installments of \$1,190 starting March 2010. The loan is secured by monthly revenue of the Association. On October 31, 2010, Desert Sands Mutual Domestic Water Consumer Association merged with the Lower Rio Grande Public Water Works Authority and the Authority assumed the loan.

Loan principal and interest payments for each of the next years and thereafter are as follows:

<b>Year Ending</b> <b>June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 14,274	\$ -	\$ 14,274
2013	14,274	-	14,274
2014	<u>15,474</u>	<u>-</u>	<u>15,474</u>
Totals	<u>\$ 44,022</u>	<u>\$ -</u>	<u>\$ 44,022</u>

*New Mexico Environmental Department*

On March 13, 2003, La Mesa Mutual Domestic Water Consumers Association entered into a \$198,215 loan agreement with the New Mexico Environmental Department (NMED) to finance the water system and future capital improvements. The loan bears interest at 3.0% and maturing in December 2017. The note is payable in yearly installments of \$16,604 starting December 2003. The loan is secured by monthly revenue of the Association. On October 31, 2010, La Mesa Mutual Domestic Water Consumer Association merged with the Lower Rio Grande Public Water Works

Authority and the Authority assumed the loan.

Loan principal and interest payments for each of the next years and thereafter are as follows:

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 13,905	\$ 2,698	\$ 16,603
2013	14,323	2,281	16,604
2014	14,752	1,852	16,604
2015	15,195	1,409	16,604
2016	13,499	953	14,452
<b>Totals</b>	<b>\$ 71,674</b>	<b>\$ 9,193</b>	<b>\$ 80,867</b>

**United State Department of Agriculture - Rural Development Loan**

On May 16, 2002, La Mesa Mutual Domestic Water Consumers Association entered into a \$100,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 4.75% and maturing in May 2042. The note is payable in monthly installments of \$466 starting June 2002. The loan is secured by real state of the Association. On October 31, 2010, La Mesa Mutual Domestic Water Consumers Association merged with the Lower Rio Grande Public Water Works Authority and the Authority assumed the loan.

Loan principal and interest payments for each of the next years and thereafter are as follows:

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 1,344	\$ 4,248	\$ 5,592
2013	1,409	4,183	5,592
2014	1,478	4,114	5,592
2015	1,550	4,042	5,592
2016	1,625	3,967	5,592
2017-2021	9,386	18,574	27,960
2022-2026	11,897	16,603	28,500
2027-2031	15,079	12,881	27,960
2032-2036	19,112	8,848	27,960
2037-2041	24,224	3,735	27,959
2042-2046	2,936	43	2,979
<b>Totals</b>	<b>\$ 90,040</b>	<b>\$ 81,238</b>	<b>\$ 171,278</b>

**United State Department of Agriculture - Rural Development Loan**

On December 17, 2007, Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association entered into a \$307,400 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 4.571% and maturing in December 2047. The note is payable in monthly installments of \$1,396 starting January 2009. The loan is secured by real state of the Association. On October 31, 2010, Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association merged with the Lower Rio Grande Public Water Works Authority and the Authority assumed the loan.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending June 30:	Principal	Interest	Total
2012	\$ 3,334	\$ 13,417	\$ 16,751
2013	3,487	13,264	16,751
2014	3,648	13,104	16,752
2015	3,815	12,936	16,751
2016	3,990	12,936	16,926
2017-2021	22,876	61,883	84,759
2022-2026	28,636	56,375	85,011
2027-2031	35,846	49,479	85,325
2032-2036	44,872	40,847	85,719
2037-2041	56,171	30,042	86,213
2042-2046	70,674	16,516	87,190
2047	22,341	2,154	24,495
Totals	<u>\$ 299,690</u>	<u>\$ 322,953</u>	<u>\$ 622,643</u>

**United State Department of Agriculture - Rural Development Loan**

On June 30, 2004, Desert Sands Mutual Domestic Water Consumer Association entered into a \$50,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 4.375% and maturing in December 2046. The note is payable in monthly installments of \$221 starting January 2007. The loan is secured by real state of the Association. On October 31, 2010, Desert Sands Mutual Domestic Water Consumer Association merged with the Lower Rio Grande Public Water Works Authority and the Authority assumed the loan.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending June 30:	Principal	Interest	Total
2012	\$ 604	\$ 2,048	\$ 2,652
2013	631	2,021	2,652
2014	659	1,993	2,652
2015	688	1,964	2,652
2016	719	1,933	2,652
2017-2021	4,106	9,154	13,260
2022-2026	5,108	8,152	13,260
2027-2031	6,354	6,906	13,260
2032-2036	7,905	5,355	13,260
2037-2041	9,834	3,426	13,260
2042-2046	10,484	1,048	11,532
Totals	<u>\$ 47,092</u>	<u>\$ 44,000</u>	<u>\$ 91,092</u>

**United State Department of Agriculture - Rural Development Loan**

On February 17, 2009, Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association entered into a \$307,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 2.75% and maturing in December 2049. The note is payable in monthly installments of \$1,057 starting March 2009. The loan is secured by real state of the Association. On October 31, 2010, Desert Sands Mutual Domestic Water Consumer Association merged with the Lower Rio

Grande Public Water Works Authority and the Authority assumed the loan.

Loan principal and interest payments for each of the next years and thereafter are as follows:

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	4,603	8,081	12,684
2013	4,731	7,953	12,684
2014	4,862	7,822	12,684
2015	4,998	7,686	12,684
2016	5,137	7,547	12,684
2017-2021	27,913	35,507	63,420
2022-2026	32,022	31,398	63,420
2027-2031	36,736	26,684	63,420
2032-2036	42,144	21,276	63,420
2037-2041	48,349	15,071	63,420
2042-2046	55,825	7,595	63,420
2047-2051	28,651	928	29,579
<b>Totals</b>	<b><u>\$ 295,971</u></b>	<b><u>\$ 177,548</u></b>	<b><u>\$ 473,519</u></b>

#### 6. NET ASSETS CONTRIBUTIONS

The merged entities contributions were as follows:

<b>Entity</b>	<b>Contributions</b>
Berino MDWC & MSWA	\$ 5,330,274
Desert Sands MDWCA	3,811,507
La Mesa MDWCA	2,725,312
Vado MDWCA	617,279
Lower Rio Grande MDWA	1,764,950
Mesquite MDWC & MSWA	<u>7,302,514</u>
<b>Total contributions</b>	<b><u>\$ 21,551,836</u></b>

#### 7. RISK MANAGEMENT

The Authority covers its risk of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters through various insurance policy coverage. The coverage includes workers compensation, general and professional liability, property, and fidelity bonds coverage. The Authority transfers these risks of loss to the insurance carrier except for deductible amounts. Premiums paid on policies for the year June 30, 2011 was \$105,048.

#### 8. RETIREMENT PLAN

The Authority provides employees the opportunity to participate in a 401(k) plan. The 401(k) is available to employees after completing their 90 day trial period. The Authority matches employee contributions dollar for dollar up to 6% of wages. In addition, the Authority contributes a profit sharing portion to each employee's 401(k), regardless of whether they participate in the voluntary contribution option. Current policy is to contribute 15% of the employee's wages towards the profit sharing option. For the fiscal year ended June 30, 2011, the Authority contributed \$2,314 in matching funds and accrued \$29,629 towards the profit sharing option.

9. **SUBSEQUENT EVENTS**

On July 15, 2011, all four loans with the United States Department of Agriculture (USDA) Rural Development were refinanced at 3.443% through the same institution, payable \$4,386 per month for the first eight months and \$3,533 for the remaining life of the loan, principal and interest through April, 2041, collateralized by revenues of the Authority. As of the date of this report, the Authority was in substantial compliance with all loan covenants.

**SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO  
 LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH  
 BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Water revenue	\$ 1,258,804	\$ 1,258,804	\$1,134,522	\$ (124,282)
Sewer revenue	63,092	63,092	18,520	(44,572)
Other income	-	-	104,734	104,734
Total operating income	<u>1,321,896</u>	<u>1,321,896</u>	<u>1,257,776</u>	<u>(64,120)</u>
Operating Expenses				
Salaries, labor	734,920	734,920	66,649	668,271
Accounting, legal	215,875	215,875	85,044	130,831
Taxes, insurance	471,430	471,430	106,559	364,871
Utilities	262,161	262,161	135,938	126,223
Supplies	165,356	165,356	230,494	(65,138)
Lab, chemicals	24,952	24,952	156,797	(131,845)
Bad debt expenses	-	-	18,244	(18,244)
Miscellaneous	-	-	622,310	(622,310)
Fuel	-	-	17,462	(17,462)
Travel and entertainment	-	-	6,726	(6,726)
Depreciation	<u>524,653</u>	<u>524,653</u>	<u>618,550</u>	<u>(93,897)</u>
Total operating expenses	<u>2,399,347</u>	<u>2,399,347</u>	<u>2,064,773</u>	<u>334,574</u>
Excess (deficiency) of revenues over expenditures	<u>(1,077,451)</u>	<u>(1,077,451)</u>	<u>(806,997)</u>	<u>270,454</u>
Nonoperating revenues				
Water	548,063	548,063	-	(548,063)
Sewer	4,735	4,735	-	(4,735)
Agency loans/grants	-	-	154,815	154,815
Other expenses	-	-	(7,896)	(7,896)
Total nonoperating income	<u>552,798</u>	<u>552,798</u>	<u>146,919</u>	<u>(405,879)</u>
Revenue over (under) expenses	<u>\$ (524,653)</u>	<u>\$ (524,653)</u>	<u>\$ (660,078)</u>	<u>\$ (135,425)</u>

See accompanying notes to financial statements and 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***

Hector H. Balderas, State Auditor  
and the Board of Directors of the  
Lower Rio Grande Public Water Works Authority, New Mexico

We have audited the financial statements of the business-type activities and the budgetary comparison presented as supplementary information of the Lower Rio Grande Public Water Works Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. (items 11-01, 11-03, 11-04, and 11-05).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 also noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as findings 11-02 and 11-06.

The Authority's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Authority's Board of Directors, the Authority's management, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*White & Samaniego & Campbell, LLP*

El Paso, Texas  
December 1, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

Hector H. Balderas  
New Mexico State Auditor  
and the Council Members  
Lower Rio Grande Public Water Works Authority  
Vado, New Mexico

**Compliance**

We have audited the Lower Rio Grande Public Water Works Authority's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Lower Rio Grande Public Water Works Authority's major federal programs for the year ended June 30, 2011. The Lower Rio Grande Public Water Works Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Lower Rio Grande Public Water Works Authority's management. Our responsibility is to express an opinion on the Lower Rio Grande Public Water Works Authority's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Lower Rio Grande Public Water Works Authority'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. Our audit does not provide a legal determination of the Lower Rio Grande Public Water Works Authority's compliance with those requirements.

In our opinion, the Lower Rio Grande Public Water Works Authority, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**Internal Control over Compliance**

Management of the Lower Rio Grande Public Water Works Authority, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts,

and grants applicable to federal programs. In planning and performing our audit, we considered the Lower Rio Grande Public Water Works Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Lower Rio Grande Public Water Works Authority'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board members, management, the State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*White + Gamoniego + Campbell, LLP*

El Paso, Texas  
December 1, 2011

STATE OF NEW MEXICO  
 LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 JUNE 30, 2011

Federal Grantor Pass Through Grantor Program Title	CFDA	Award Amount	Expenditures
<i>United States Department of Agriculture Rural Development</i>			
Water and Waste Disposal Systems for Rural Communities - Loan	17.760	\$ 307,400	\$ 299,690
Water and Waste Disposal Systems for Rural Communities - Loan	17.760	307,000	295,971
Water and Waste Disposal Systems for Rural Communities - Loan	17.760	50,000	47,092
Water and Waste Disposal Systems for Rural Communities - Loan	17.760	<u>100,000</u>	<u>90,040</u>
Total Expenditures of Federal Awards		<u>\$ 764,400</u>	<u>\$ 732,793</u>

**Note 1 - Basis of Presentation**

The above Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lower Rio Grande Public Water Works Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO  
 LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 JUNE 30, 2011

---

SECTION I - SUMMARY OF AUDITOR'S REPORT

FINANCIAL STATEMENTS

Type of Auditor's Report Issued	Unqualified	
Significant Deficiencies Identified?	<u>  X  </u> Yes	<u>      </u> No
Significant Deficiencies Identified that Are Considered to Be Material Weakness(es)?	<u>      </u> Yes	<u>  X  </u> No
Noncompliance Material to Financial Statements	N/A	

FEDERAL AWARDS

Type of Auditor's Report Issued on compliance for Major Programs	Unqualified	
Internal Control Over Major Programs:		
Significant Deficiencies Identified?	<u>      </u> Yes	<u>  X  </u> No
Significant Deficiency(ics) Identified that Are Considered to Be Material Weakness(es)?	<u>      </u> Yes	<u>  X  </u> No
Any Audit Findings Disclosed that are Required to be Reported in accordance with Section 501(a) of Circular A-133?	<u>      </u> Yes	<u>  X  </u> No

Identification of Major Programs:

CFDA	10.760	Water and Waste Disposal Systems for Rural Communities - Loan
------	--------	---

Dollar Threshold Used to Distinguish Between Type A and Type B Programs	\$300,000	
Auditee Qualifies as Low-Risk Auditee	<u>      </u> Yes	<u>  X  </u> No

STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011

---

**Capital Assets (11-01)**

<b>CONDITION</b>	During our test work, we noted that the the capital asset additions were not accurately reflected in the capital asset inventory. In addition the capital asset inventory is not being timely maintained and was not reconciled at year-end.
<b>CRITERIA</b>	According to NMAC 2.20.1.16 Annual Inventory requires that all state agencies, municipalities, counties and every political subdivision of the state must conduct an annual physical audit of its capital assets with a historical cost of \$5,000 or more. Also, the results of the physical inventory shall be recorded in a written inventory report, certified as to the correctness and signed by the governing authority of the agency.
<b>EFFECT</b>	The Authority has asset listings, but has not adequately maintained those listings to ensure they agree with audited financial statements.
<b>CAUSE</b>	The Authority does not have personnel trained and knowledgeable in the maintenance and record keeping of capital assets for the Authority.
<b>RECOMMENDATION</b>	The Authority must implement a property control system in accordance with NMAC 2.20.1.8 in order to have an accurate capital asset listing which includes depreciation expense.
<b>RESPONSE</b>	The Authority concurs and shall implement a property control system in accordance with NMAC 2.20.1.16.

**Employee Payroll Advances (11-02)**

<b>CONDITION</b>	Under certain circumstances the Authority allowed employees to receive an advance on their net payroll for time already worked prior to the regular scheduled payroll. The advance was then deducted from the employees net payroll check on the regular schedule payroll.
<b>CRITERIA</b>	New Mexico State Statues Article IX section 14 prohibits this activity.
<b>EFFECT</b>	Advances made to employees were carried as receivables from employees until the funds were deducted from the employee's regular paycheck.
<b>CAUSE</b>	The Authority relied on advice from their attorney that this practice was permitted as long as the employee had already worked the hours being advanced and that the advance was deducted on the next paycheck.
<b>RECOMMENDATION</b>	We recommend that employee advances be stopped and a policy be issued that prohibits future employee advances.

**RESPONSE** The Authority concurs and shall adopt a personnel policy which prohibits employee payroll advances.

**Grant Activity (11-03)**

**CONDITION** Grant activity transactions that were not properly recorded in the accounting records for the Authority.

**CRITERIA** All financial activity should be properly recorded in the Authority's accounting records. Regular, periodic reconciliations between grant expenses and income should be made to ensure the accuracy and completeness of reported financial information.

**EFFECT** Omitted grant activity transactions produce inaccurate financial reports.

**CAUSE** Grant income was misposted in the general ledger.

**RECOMMENDATION** We recommend the Authority record all grant income and expenses in the accounting records and regularly reconcile the actual grant activity to the general ledger.

**RESPONSE** The Authority concurs and shall properly record Grant activity transaction in the accounting records.

**Inventory (11-04)**

**CONDITION** An accurate inventory listing was not taken at year end. Detailed records of inventory purchases and inventory usage were not reconciled to the general ledger at year end.

**CRITERIA** An effective system on internal control provides for the proper safeguarding of the entity's assets. Such control is established through the inventory listing and the reconciliation with control accounts along with an annual physical inventory inspection.

**EFFECT** Inventory at year end is not accurate. This can cause the financial statements to be misstated.

**CAUSE** No system exists for the maintaining of inventory for supplies. Accounting records for the inventory of the Authority over the year has reflected additions acquired.

**RECOMMENDATION** The detailed inventory listing should be completed and verified at year end and reconciled to the control accounts in the general ledger.

**RESPONSE** The Authority concurs and shall obtain an accurate inventory listing at the end of each fiscal year which shall be used to reconcile inventory purchases and inventory usage to the general ledger.



**Under Collateralized Bank Accounts (11-05)**

<b>CONDITION</b>	The auditors were unable to obtain the collateral statements from the District and the amount of coverage is unknown.
<b>CRITERIA</b>	Section 6-10-17 NMSA requires 50% collateral requirement for the District's monies deposited in each financial institution.
<b>EFFECT</b>	The District is not following State Statutes concerning safekeeping of public monies.
<b>CAUSE</b>	Section 6-10-17 NMSA 1978 only applies to governmental agencies. The Citizen Bank was unaware that Lower Rio Grande Public Water Works Authority was a New Mexico government agency. So, no collateral was applied to the Authority's monies that exceed the District's FDIC coverage.
<b>RECOMMENDATION</b>	In the future, if the Authority's deposits exceed the FDIC coverage, the Authority should ensure that the bank applies the proper collateral to their excess monies.
<b>RESPONSE</b>	The Authority concurs and shall secure the 50% collateral requirement for the Authority's monies deposited exceeding the FDIC coverage in each financial institution in accordance with Section 6-10-17 NMSA.

**Late Audit Report (11-06)**

<b>CONDITION</b>	The audit report was submitted to the State Auditor after the required deadline.
<b>CRITERIA</b>	Special districts audits are required to be submitted to the State Auditor by December 1. This is a requirement of the State Auditors Office Rule 2.2.2.9A(I)(C).
<b>EFFECT</b>	State Auditor regulations have not been adhered to. Also, the users of the financial statements such as legislators, creditors, bondholders, State and Federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on State and Federal Funding.
<b>CAUSE</b>	The Association was unable to submit the audit report on a timely basis as a result of the merger.
<b>RECOMMENDATION</b>	The Association is working diligently to become current with all of their audit reports.
<b>RESPONSE</b>	The Association is diligently working to ensure that all audits are submitted and deadlines are adhered to.

STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011

---

STATUS OF PRIOR YEAR FINDINGS

None

**STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY**

**EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2011**

---

An exit conference was conducted November 22, 2011 in a closed meeting of the Authority pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Mesquite Mutual Domestic Water Consumer and Sewage Works Authority

Robert M. Nieto	President
Martin Lopez	General Manager
Kathi Jackson	Finance Manager

White + Samaniego + Campbell, LLP

Luis Molina	Auditor
-------------	---------

**FINANCIAL STATEMENT PREPARATION**

The combined financial statements of the Authority as of, and for the year ended, June 30, 2011 were prepared by White + Samaniego + Campbell, LLP, with the aid of responsible Authority personnel. Official responsible personnel agree that the presentations are made with their knowledge and agreement.

