Lower Rio Grande Public Water Works Authority

Basic Financial Statements and Supplementary Information for the Year Ended June 30, 2012 and Independent Auditors' Report

STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

TABLE OF CONTENTS

STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

DIRECTORY OF OFFICIALS
JUNE 30, 2012

Board of Directors

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

Officials

Martin Lopez	General Manager

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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, 2012, 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, 2012 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, 2012, 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, 2012, 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, 2012, 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.

Management has omitted the Management's Discussion and Analysis which is required to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is

required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. Our opinion on the basic financial statements is not affected by the missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. 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 financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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, 2012

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS:	
Current assets:	
Grants receivables	$ 241,699
Accounts receivables, net	319,191
Other assets	10,930
Total current assets	571,820
Noncurrent assets:	
Restricted cash	159,322
Loan origination fees	11,814
Capital assets	24,073,419
Total assets	$ 24,816,375
LIABILITIES:	
Current liabilities:	
Bank overdraft	$ 119,846
Accounts payable	268,822
Accrued liabilities and other expenses	69,818
Current portion of long-term debt	84,396
Current portion of accrued compensation absences	37,954
Total current liabilities	580,836
Non-current liabilities:	
Non-current portion of long-term debt	1,535,631
Customer deposits	45,838
Total noncurrent liabilities	1,581,469
Total liabilities	2,162,305
NET ASSETS:	
Investment in capital assets, net of related debt	22,453,392
Unrestricted	(4,482)
Restricted	205,160
Total net assets	22,654,070
Total liabilities and net assets	$ 24,816,375

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, 2012

Operating revenues	
Service fees	$ 1,524,914
Activation, connection and installation fees	60,150
Late fees	151,416
Membership fees	3,850
Other income	50,785
Total operating revenues	1,791,115
Operating expenses	
Bad debt expense	43,290
Bank charges	3,920
Amortization	49
Employee benefits	83,823
Materials, supplies, tools and chemicals	176,819
Depreciation	741,725
Salaries and wages	715,497
Office Expense	84,626
Miscellaneous	185,427
Taxes and license - other	339
Cost of operations	4,601
Insurance	167,181
Maintenance and repairs	60,451
Payroll expense	54,245
Professional fees	65,350
Travel and entertainment	4,612
Utilities	157,064
Total operating expenses	2,549,019
Operating loss	(757,904)
Nonoperating revenues (expenses)	
Grant revenue	1,256,577
Interest income	670
Rental income	7,794
Other income	146,358
Interest expense	(20,544)
Total nonoperating revenues (expenses)	1,390,855
Change in net assets	632,951
Net assets, beginning of year	20,891,758
Restatement	(169,802)
Net assets, beginning of year as restated	20,721,956
Net assets contributions	1,299,163
Net assets, end of year	$ 22,654,070

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 1,647,411
Cash payments to suppliers and employees	(1,638,215)
Net cashprovided by operating activities	9,196
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Cash transferred in merger	22,389
Rental income	7,794
Other income	146,358
Net cash provided by non-operating activities	176,541
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from long-term debt	1,567,028
Principal payments	(795,490)
Grants	1,256,577
Acquisition of property and equipment	(2,841,670)
Interest payments	(20,544)
Net cash used in financing activities	(834,099)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	670
Transfer for merger	437,851
Net cash provided investing activities	$ 438,521
NET INCREASE IN CASH AND CASH EQUIVALENTS	(209,841)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	369,163
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 159,322
RECONCILIATION TO CASH AND CASH EQUIVALENT AS REPORTED ON THE STATEMENT OF NET ASSETS	
Restricted cash	$ 159,322

(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, 2012

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (757,904)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	741,725
Change in:	
Grants receivable	(49,824)
Accounts receivable	(93,880)
Other assets	(11,307)
Accounts payable	127,321
Accrued payable and other liabilities	49,520
Accrued compensated absences	3,545
Total adjustments	767,100
Net cash provided by operating activities	$ 9,196
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS	
Noncash transactions transferred in the merging of entities:	
Capital assets, net	$ 1,276,774
	$ 1,276,774

(Concluded)

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

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, 2012.

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	$ 45,838
Construction account	113,484
Total restricted cash	$ 159,322

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 $113,484.

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 unelectable 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.

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65 Items Previously Reported as Assets and Liabilities, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. 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 March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66 Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. 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.

Citizens Bank Name of Account	Balance Per Bank 06/30/12	Reconciled Balance	Type
Operating account	$ 122,907	$ (86,754)	Checking
Debt Service	810	810	Checking
La Mesa Water Project	353	353	Checking
Mesquite Water Sewer	706,568	238	Checking
Berino/Mesquite	498	(84,574)	Checking
Berino/Mesquite	44,303	44,303	Checking
Reserve	152,744	152,726	Checking
Certificate of Deposit	11,344	11,344	CD
Total Deposited	1,039,527	$ 38,446	
Less: FDIC Coverage	(250,000)		
Uninsured amount	789,527		
50% collateral requirement	394,764		
Pledged securities	-		
Over (under) requirement	$ (394,764)		

In addition to the above bank balances, the Authority has $1,026 in petty cash at June 30, 2012.

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, 2012, $789,527 of the Authority's bank balance of $1,039,527, was exposed to custodial credit risk.

3. PROPERTY AND EQUIPMENT

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

	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Capital assets not being depreciated:					
Land	$ 258,138	$ -	$ -	$ -	$ 258,138
Construction in progress	1,154,404	481,381	2,234,017	(607,653)	3,262,149
Water rights	9,199,171	-	-	-	9,199,171
Total capital assets not being depreciated	10,611,713	481,381	2,234,017	(607,653)	12,719,458
Capital Assets, being depreciated					
Buildings	773,452	-	607,653	-	1,381,105
Water systems	14,698,352	790,196	-	-	15,488,548
Furniture, fixtures and equipment	497,599	5,197	-	-	502,796
Transportation equipment	361,421	-	-	-	361,421
Total capital assets , being depreciated	16,330,824	795,393	607,653	-	17,733,870
Total capital assets	26,942,537	1,276,774	2,841,670	(607,653)	30,453,328
Less accumulated depreciation for:					
Buildings	355,639	-	28,668	-	384,307
Water systems	4,621,120	-	636,620	-	5,257,740
Furniture, fixtures and equipment	425,444	-	34,797	-	460,241
Transportation equipment	235,981	-	41,640	-	277,621
Total accumulated depreciation	5,638,184	-	741,725	-	6,379,909
Total other capital assets, net	$ 21,304,353	$ 1,276,774	$ 2,099,945	$ (607,653)	$ 24,073,419

Depreciation expense was $741,725 for the year ended June 30, 2012.

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, 2012, employees had balances of 409 sick leave hours with a value of $7,458 and 1,774 vacation hours with a value of $30,496. 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, 2012 were as follows:

	Balance 06/30/11	Increase	Decrease	Balance 06/30/12	Amounts Due Within One Year
NMFA Truck (Desert Sands)	$ 44,022	$ -	$ 18,997	$ 25,025	$ 14,274
NMED RIP 88-12R (La Mesa)	71,674	-	22,534	49,140	18,088
USDA RD 91-01 (La Mesa)	90,040	-	90,040	-	-
USDA RD 91-06 (Mesquite)	299,690	-	299,690	-	-
USDA RD 91-07 (Desert Sands)	47,092	-	47,092	-	-
USDA RD 91-16 (Mesquite)	295,971	-	295,971	-	-
NMFA Lower Rio Grande	-	790,914	16,734	774,180	19,351
USDA RD 92-13	-	100,000	760	99,240	1,233
USDA RD 92-19	-	606,000	3,672	602,328	10,106
WTB-233	-	70,114	-	70,114	21,344
Compensated absences	39,797	37,954	39,797	37,954	37,954
	$ 888,286	$1,604,982	$ 835,287	$ 1,657,981	$ 122,350

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. In June, 2011 the loan was amentment to change borrower to the Lower Rio Grande Public Water Works Authority.

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

Year Ending June 30:	Principal	Interest	Total
2013	14,274	-	14,274
2014	10,751	-	10,751
Totals	$ 25,025	$ -	$ 25,025

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.% and maturing in December 2017. The note is payable in yearly installments of $16,604starting 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:

Year Ending June 30:	Principal	Interest	Total
2013	18,088	1,227	19,315
2014	18,638	677	19,315
2015	12,414	134	12,548
Totals	$ 49,140	$ 2,038	$ 51,178

New Mexico Finance Authority

On July 15, 2011, the Lower Rio Grande Public Water Works Authority entered into a $790,914 loan agreement with the New Mexico Finance Authority (NMFA) to refunding four United States Department of Agriculture loans to La Mesa Mutual Domestic Water Consumers Association, Mesquite Mutual Domestic Water Consumers and Mutual Sewage Works Association and Desert Sands Mutual Domestic Water Consumer Association. The loan has a 3.443 percent interest and matures in April 2041. The note is payable in two monthly installments of $3,172 and forty eight monthly installments of $3,533 to 4,386 starting June 2011. The loan is secured by monthly revenue of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2013	19,351	23,050	42,401
2014	19,445	22,957	42,402
2015	19,584	22,817	42,401
2016	19,771	22,630	42,401
2017	19,998	22,403	42,401
2018-2022	105,115	106,892	212,007
2023-2027	117,957	94,049	212,006
2028-2032	136,839	75,167	212,006
2033-2037	165,351	49,654	215,005
2038-2041	150,769	15,833	166,602
Totals	$ 774,180	$ 455,452	$ 1,229,632

United State Department of Agriculture - Rural Development Loan

On April 27, 2012, the Lower Rio Grande Public Water Works Authority entered into a $100,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the sewer facility in Mesquite. The loan bears interest at 3.375% and maturing in June 2052. The note is payable in monthly installments of $380 starting June 2012. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2013	1,233	3,327	4,560
2014	1,380	3,285	4,665
2015	1,427	3,241	4,668
2016	1,476	3,196	4,672
2017	1,526	3,149	4,675
2018-2022	8,457	14,985	23,442
2023-2027	10,005	13,551	23,556
2028-2032	11,286	11,854	23,140
2033-2037	12,955	9,844	22,799
2038-2042	15,333	7,467	22,800
2043-2047	18,307	4,651	22,958
2048-2052	15,855	1,287	17,142
Totals	$ 99,240	$ 79,837	$ 179,077

United State Department of Agriculture - Rural Development Loan

On April 27, 2012, the Lower Rio Grande Public Water Works Authority entered into a $606,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the sewer facility in Mesquite. The loan bears interest at 2% and maturing in June 2052. The note is payable in monthly installments of $1,837 starting June 2012. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2013	10,106	-	10,106
2014	10,310	-	10,310
2015	10,519	-	10,519
2016	10,731	-	10,731
2017	10,947	-	10,947
2022-2026	58,142	-	58,142
2027-2031	64,252	-	64,252
2032-2036	71,033	-	71,033
2037-2041	78,464	-	78,464
2042-2046	86,709	-	86,709
2047-2051	95,979	-	95,979
2047-2051	95,136	-	95,136
Totals	$ 602,328	$ -	$ 602,328

United State Department of Agriculture - Rural Development Loan

On January 20, 2012, the Lower Rio Grande Public Water Works Authority entered into a $437,163 loan agreement with the New Mexico Finance Authority (NMFA) to finance the water system. The loan bears interest at .25% and maturing in June 2032. The note is payable in variable monthly installments between $21,344 and $22,378of $221 starting June 2013. The loan is secured by real state of the Association. As of June 30, 2012 only $70,114 has been withdraw from the $437,163 available balance.

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

Year Ending June 30:	Principal	Interest	Total
2012	$ 21,344	$ 1,491	$ 22,835
2013	21,397	1,040	22,437
2014	21,450	987	22,437
2015	5,923	923	6,846
Totals	$ 70,114	$ 4,441	$ 74,555

6. NET ASSETS CONTRIBUTIONS

The merged entities contributions were as follows:

Entity	Contributions
Desert Sands MDWCA	$ 22,389
Lower Rio Grande MDWA	1,276,774
Total contributions	$ 1,299,163

7. EXCESS EXPENDITURES OVER APPROPRIATIONS

New Mexico State Statutes restricts all officials and governing authorities from approving claims in excess of the approved budget. The Authotity exceeded its authorized budget by $149,672 as follows:

Fund	Budget Expenses	Actual Expenses	Difference
Operating expenses	$ 2,399,347	$ 2,549,019	$ 149,672

8. 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, 2012 was $167,181.

9. RETIREMENT PLAN

The Authority provides employees the opportunity to participate in a 401K 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, 2012, the Authority contributed $22,564 in matching funds and accrued $31,558 towards the profit sharing option.

10. SUBSEQUENT EVENTS

On October 15, 2012 the Board of Directors of Butterfield Park Mutual Domestic Water Consumer Association, according to the Sanitary Project Act, Section 3-29-20-1, NMSA 1978, approved a plan of merger with the Lower Rio Grande Public Works Authority. The Associations will immediately commence the process of merge into the Authority, which process may take one to two years.

11. RESTATEMENT

Certain errors resulting in an overstatement of previously reported accounts receivable were discovered during current year. Accordingly, an adjustment of $169,802 was made during fiscal year ending June 30, 2011 to decrease accounts receivable as of the beginning of the year. A corresponding entry was made to decrease previously reported net assets by $169,802.

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, 2012

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Water revenue	$ 1,258,804	$ 1,258,804	$1,524,914	$ 266,110
Sewer revenue	63,092	63,092	60,150	(2,942)
Other income	-	-	206,051	206,051
Total operating income	1,321,896	1,321,896	1,791,115	469,219
Operating Expenses				
Salaries, labor	734,920	734,920	54,245	680,675
Accounting, legal	215,875	215,875	69,270	146,605
Taxes, insurance	471,430	471,430	167,520	303,910
Utilities	262,161	262,161	157,064	105,097
Supplies	165,356	165,356	145,126	20,230
Lab, chemicals	24,952	24,952	176,819	(151,867)
Bad debt expenses	-	-	43,290	(43,290)
Miscellaneous	-	-	984,747	(984,747)
Fuel	-	-	4,601	(4,601)
Travel and entertainment	-	-	4,612	(4,612)
Depreciation	524,653	524,653	741,725	(217,072)
Total operating expenses	2,399,347	2,399,347	2,549,019	(149,672)
Excess (deficiency) of revenues over expenditures	(1,077,451)	(1,077,451)	(757,904)	319,547
Nonoperating revenues				
Water	548,063	548,063	-	(548,063)
Sewer	4,735	4,735	-	(4,735)
Agency loans/grants	-	-	1,256,577	1,256,577
Other expenses	-	-	134,278	134,278
Total nonoperating income	552,798	552,798	1,390,855	838,057
Revenue over (under) expenses	$ (524,653)	$ (524,653)	$ 632,951	$ 1,157,604

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

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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 Río Grande Public Water Works Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 1, 2012. 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

Management of agency is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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, 11-04, 11-05, 12-02, 12-03, and 12-04). 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.

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 12-01, and 12-05.

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 & Samanego & Campbell, LLP

El Paso, Texas
December 1, 2012

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM A ND 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, 2012. 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, 2012.

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 + Samaniego + Campbell, LLP

El Paso, Texas
December 1, 2012

STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012

Federal Grantor Pass Through Grantor Program Title	CFDA	Award Amount	Expenditures
United States Department of Agriculture Rural Development			
Water and Waste Disposal Systems for Rural Communities - Loan	17.760	$ 100,000	$ 100,000
Water and Waste Disposal Systems for Rural Communities - Loan	17.760	606,000	606,000
Water and Waste Disposal Systems for Rural Communities - Grant	17.760	100,000	44,000
Water and Waste Disposal Systems for Rural Communities - Grant	17.760	2,267,000	775,726
Total Expenditures of Federal Awards		$ 3,073,000	$ 1,525,726

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, 2012

SECTION I - SUMMARY OF AUDITOR'S REPORT

FINANCIAL STATEMENTS

Type of Auditor's Report Issued	Unqualified	
Significant Deficiencies Identified?	X Yes	No
Significant Deficiencies Identified that Are Considered to Be Material Weakness(es)?	Yes	X 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?	Yes	X No
Significant Deficiency(ies) Identified that Are Considered to Be Material Weakness(es)?	Yes	X No
Any Audit Findings Disclosed that are Required to be Reported in accordance with Section 501(a) of Circular A-133?	Yes	X 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	Yes	X No

STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Capital Assets (11-01) - Significant deficiency

CONDITION	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.
CRITERIA	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.
EFFECT	The Authority has asset listings, but has not adequately maintained those listings to ensure they agree with audited financial statements.
CAUSE	The Authority does not have personnel trained and knowledgeable in the maintenance and record keeping of capital assets for the Authority.
RECOMMENDATION	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.
RESPONSE	The Authority concurs and shall implement a property control system in accordance with NMAC 2.20.1.16.

Inventory (11-04) - Significant deficiency

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) - Significant deficiency

CONDITION	The auditors were unable to obtain the collateral statements from the District and the amount of coverage is unknown.
CRITERIA	Section 6-10-17 NMSA requires 50% collateral requirement for the District's monies deposited in each financial institution.
EFFECT	The District is not following State Statutes concerning safekeeping of public monies.
CAUSE	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.
RECOMMENDATION	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.
RESPONSE	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.

Per Diem(12-01) - Other

CONDITION	During course of our audit, we performed tests of travel and per diem expenditures. Two samples were selected to verify the Authority's compliance with the New Mexico State Per Diem and Mileage Act. Out of the two samples selected, one sample was not in compliance. The sample which was not in compliance was for four of the Authority's employees allowing for a maximum amount of $120.00 per day for in state travel. The actual per diem expense for the sample was of 134.28 exceeding the allowable amount by $14.28.
CRITERIA	The New Mexico Department of Finance and Administration have issued regulations in the form of Title 2, Chapter 42, Part 2, Travel and Per Diem Regulations Governing the Per Diem and Mileage Act of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978. More specifically Section 10.8.4.K. (2) of the New Mexico State Per Diem and Mileage Act states that reimbursements for actual expenses for meals is not to exceed thirty dollars per day for in state-travel and forty-five dollars per day for out-of-state travel .

EFFECT	Non-compliance with the state of New Mexico Per Diem and Mileage Act subjects officials and employees to penalties as required by state statutes.
CAUSE	The Authority did not have proper documentation of per diem expenses.
RECOMMENDATION	We recommend the administrative staff review the Per Diem and Mileage Act and the administrative code to ensure compliance with the Act.We also recommend that the Authority keep proper documentation of all expenses that apply to the New Mexico State Per Diem and Mileage Act, in order to ensure that the Authority maintains compliance with New Mexico statutes .
RESPONSE	The Authority concurs and shall obtain proper documentation for all expense that apply to the New Mexico State Per Diem and Mileage Act.

Overstatement of Revenues (12-02) - Significant deficiency

CONDITION	While performing the audit and reviewing grant activity for the year ended June 30, 2012 the auditor discovered that loans awarded from USDA were improperly recorded as grants.
CRITERIA	All financial activity should be properly recorded in the Authority's accounting records.
EFFECT	Loans recorded as grants will overstate actual revenues.
CAUSE	Loans were misposted as grants in the general ledger.
RECOMMENDATION	We recommend the Authority reconcile accounting records to award agreements in order to verify for accuracy.
RESPONSE	The Authority concurs and shall properly record loans activity transactions in the accounting records.

Compensated Absences (12-03) - Significant deficiency

CONDITION	The Authority overpaid compensated absences for sick leave in the amount of $4,367 and underpaid compensated absences in the amount of $134. Resulting in a net over payment of compensated absences in the amount of $4,233.
CRITERIA	According to the Authority's personnel policy and procedures, annual and sick leave will be paid out upon termination, in accordance with NMAC 2.2.2.10 and GASB Statement No. 16.
EFFECT	The Authority is not in compliance with NMAC 2.2.2.10 and GASB Statement No. 16, Accounting for Compensated Absences.
CAUSE	The Authority did not reconcile payroll expenses to records for compensated absences.
RECOMMENDATION	We recommend the Authority reconcile compensated absences records to payroll expenses to verify for accuracy.

RESPONSE The Authority concurs and shall obtain proper documentation and approval for compensated absences before making any payments.

Recording of Payments (12-04) - Significant deficiency

CONDITION A hand written check was incorrectly posted before year end on 6/26/2012 and was dated 7/26/2012. This resulted in understating cash balance by $180,157 and overstating expenses pertaining to federal awards.

CRITERIA OMB Circular A-133 Subpart C states:

The auditee shall: Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

EFFECT The Authority is not in compliance with OMB Circular A-133.

CAUSE The Authority did not have the proper internal controls to review posting of transactions.

RECOMMENDATION We recommend the Authority that checks issued be scrutinized for accuracy by more than one member of management.

RESPONSE The Authority concurs and shall obtain proper documentation for all expenses that apply to federal awards.

Legal Compliance with Budget (12-05) - Other

CONDITION The Authority's actual expenditures exceeded the approved budget by $149,672 in total.

CRITERIA "Budgets for mutual domestic water consumers and sewage works associations are approved by DFA in accordance with Section 6-6-3 NMSA 1978. Association's expenditures cannot exceed the approved budget according to Section 6-6-6 NMSA 1978 which states: "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."

CAUSE The Authority did not have controls in place to ensure that it is not expending funds in excess of approved budget amounts.

EFFECT	Non-compliance with New Mexico state statutes subjects Authority officials and personnel to punishment as defined by state statutes.
RECOMMENDATION	Adopt budget adjustments in accordance with the Authority's plans and operations. Obtain approval from DFA before any expenditures are incurred. Monitor accounts at least quarterly to ensure that actual expenditures do not exceed the approved budget or available fund balance at any time during the fiscal year.
RESPONSE	The Authority will improve budget monitoring and review.

STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

STATUS OF PRIOR YEAR FINDINGS

		Current Status
11-01	Capital Assets	Repeat
11-02	Employee Payroll Advances	Resolved
11-03	Grant Activity	Resolved
11-04	Inventory	Repeat
11-05	Under Collateralized Bank Accounts	Resolved
11-06	Late Audit Report	Resolved

STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2012

An exit conference was conducted December 4, 2012 in a closed meeting of the Authority pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Lower Rio Grande Public Water Works Authority

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

White + Samaniego + Campbell, LLP

Cheryl Hutton-Tellez	Staff Auditor
Jorge Almuina	Staff Auditor

FINANCIAL STATEMENT PREPARATION

The combined financial statements of the Authority as of, and for the year ended, June 30, 2012 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.