

**Lower Rio Grande Public
Water Works Authority**

**Basic Financial Statements and
Supplementary Information
for the Year Ended June 30, 2013
and Independent Auditors' Report**

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

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

**DIRECTORY OF OFFICIALS
JUNE 30, 2013**

Board of Directors

Robert M. Nieto	President
John Holguin	Vice President
Santos Ruiz	Secretary
Carlos Tellez	Director
Mike McMullen	Director
Furman Smith	Director
Art Terrazas	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

Report on Financial Statements

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, 2013, and the related notes to the financial statements, 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, 2013 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lower Rio Grande Public Water Works Authority, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements, and the budgetary comparison that collectively comprise the Lower Rio Grande Public Water Works Authority's basic financial statements. The "other supplemental information" as identified in the table of contents and presented is for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 on our consideration of Lower Rio Grande Public Water Works 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* in considering Lower Rio Grande Public Water Works Authority's internal control over financial reporting and compliance.

White + Samaniego + Campbell, LLP

El Paso, Texas
November 26, 2013

BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET POSITION
JUNE 30, 2013**

ASSETS:

Current assets:

Cash and cash equivalents	\$ 78,695
Grants receivables	321,275
Accounts receivables, net	400,125
Other assets	<u>8,438</u>

Total current assets 808,533

Noncurrent assets:

Restricted cash	267,886
Capital assets	<u>40,747,761</u>

Total assets \$ 41,824,180

LIABILITIES:

Current liabilities:

Accounts payable	\$ 136,774
Accrued liabilities and other expenses	36,339
Current portion of long-term debt	167,523
Current portion of accrued compensation absences	<u>36,851</u>

Total current liabilities 377,487

Non-current liabilities:

Non-current portion of long-term debt	3,511,196
Customer deposits	<u>52,570</u>

Total noncurrent liabilities 3,563,766

Total liabilities 3,941,253

NET POSITION:

Net investment in capital assets	37,069,042
Unrestricted	493,429
Restricted	<u>320,456</u>

Total net position 37,882,927

Total liabilities and net position \$ 41,824,180

See accompanying notes to financial statements and independent auditors' report.

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

Operating revenues	
Service fees	\$ 1,532,061
Activation, connection and installation fees	45,077
Late fees	76,597
Membership fees	5,245
Other income	<u>31,262</u>
Total operating revenues	1,690,242
Operating expenses	
Bank charges	3,847
Employee benefits	57,447
Materials, supplies, tools and chemicals	203,375
Depreciation	694,324
Salaries and wages	816,126
Office Expense	101,753
Miscellaneous	38,281
Taxes and license - other	19,714
Cost of operations	2,360
Insurance	196,216
Maintenance and repairs	31,149
Payroll expense	86,130
Professional fees	58,309
Travel and entertainment	6,956
Utilities	<u>234,689</u>
Total operating expenses	2,550,676
Operating loss	<u>(860,434)</u>
Nonoperating revenues (expenses)	
Grant revenue	9,497,737
Interest income	2,484
Rental income	4,784
Other income	69,563
Interest expense	<u>(96,689)</u>
Total nonoperating revenues (expenses)	9,477,879
Change in net position	8,617,445
Net position, beginning of year	<u>22,654,070</u>
Restatement	<u>(11,814)</u>
Net position, beginning of year as restated	<u>22,642,256</u>
Net position contributions	<u>6,623,226</u>
Net position, end of year	<u>\$ 37,882,927</u>

See accompanying notes to financial statements and independent auditors' report.

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,529,732
Cash payments to suppliers and employees	<u>(2,013,757)</u>
Net cash used in operating activities	(484,025)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Cash transferred in merger	304,227
Rental income	4,784
Other income	<u>69,563</u>
Net cash provided by non-operating activities	378,574
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments	989,032
Grants	9,497,737
Acquisition of property and equipment	(9,980,008)
Interest payments	<u>(96,689)</u>
Net cash provided by financing activities	410,072
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	-
Transfer for merger	<u>2,484</u>
Net cash provided by investing activities	<u>\$ 2,484</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>307,105</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>39,476</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 346,581</u>
RECONCILIATION TO CASH AND CASH EQUIVALENT AS REPORTED ON THE STATEMENT OF NET POSITION	
Cash and cash equivalents	\$ 78,695
Restricted cash	<u>267,886</u>
	<u>\$ 346,581</u>

(Continued)

See accompanying notes to financial statements and independent auditors' report.

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

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

Operating loss	\$ (860,434)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	694,324
Change in:	
Grants receivable	(79,576)
Accounts receivable	(80,934)
Other assets	(14,306)
Accounts payable	(132,047)
Accrued payable and other liabilities	(89,832)
Accrued compensated absences	<u>78,780</u>
Total adjustments	<u>376,409</u>
Net cash used in operating activities	<u>\$ (484,025)</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS

Noncash transactions transferred in the merging of entities:	
Capital assets, net	<u>\$ 7,388,658</u>
	<u>\$ 7,388,658</u>

(Concluded)

See accompanying notes to financial statements and independent auditors' 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, 2013**

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 seven (7) 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 transferred to the Authority when the projects are complete.

In September 2012, October 2012 and February 2013, 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) Organ Water and Sewer Association, (2) Butterfield Park Mutual Domestic Water Consumers' Association and (3) Brazito Mutual Domestic Water Consumers Association, respectively.

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, 2013.

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	\$ 52,570
Construction account	<u>215,316</u>
Total restricted cash	<u>\$ 267,886</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 \$215,316.

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 Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net assets. Net investment in capital assets 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 position 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 position 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.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. Earlier application is encouraged. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Village 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 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27. Earlier application is encouraged. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The Village 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.

Implementation of New Standards

Change in Accounting Principles - As a result of GASB Statement No. 65, debt issuance costs are no longer reported as assets.

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	Balance Per			
<u>Name of Account</u>	Bank	Reconciled		Type
	06/30/13	Balance		
Operating account	\$ 127,878	\$ 43,983		Checking
Debt Service	75,261	75,261		Checking
La Mesa Water Project	393	393		Checking
Mesquite Water Sewer	238	238		Checking
Berino/Mesquite	172	172		Checking
Berino/Mesquite	44,303	44,303		Checking
Reserve	169,286	169,287		Checking
Organ Water and Sewer	303	303		Checking
Certificate of Deposit	<u>11,390</u>	<u>11,390</u>		CD
Total Deposited	429,224	<u>\$ 345,330</u>		
Less: FDIC Coverage	<u>(250,000)</u>			
Uninsured amount	179,224			
50% collateral requirement	89,612			
Pledged securities	<u>2,119,019</u>			
Over (under) requirement	<u>\$ 2,029,407</u>			

The following securities are pledged by Citizens Bank of Las Cruces:

Description	CUSIP #	Fair Value	Maturity Date
FHLB	3133XHVS8	\$ 568,175	12/9/2016
FHLB	313370SZ2	1,550,844	9/8/2017
Total		<u>\$ 2,119,019</u>	

In addition to the above bank balances, the Authority has \$1,251 in petty cash at June 30, 2013.

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, 2013, \$179,224 of the Authority's bank balance of \$429,224, 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	\$ 96,548	\$ -	\$ -	\$ 354,686
Land Improvements	-	33,633	-	-	33,633
Construction in progress	3,262,149	717,165	9,930,763	-	13,910,077
Water rights	<u>9,199,171</u>	<u>1,728,000</u>	<u>-</u>	<u>-</u>	<u>10,927,171</u>
Total capital assets not being depreciated	<u>12,719,458</u>	<u>2,575,346</u>	<u>9,930,763</u>	<u>-</u>	<u>25,225,567</u>

Capital Assets, being depreciated					
Buildings	1,381,105	405,620	-	(13,148)	1,773,577
Water systems	15,488,548	7,344,599	63,392	(1,000)	22,895,539
Furniture, fixtures and equipment	502,796	495,040	-	(16,952)	980,884
Transportation equipment	<u>361,421</u>	<u>26,700</u>	<u>-</u>	<u>(1,762)</u>	<u>386,359</u>
Total capital assets , being depreciated	<u>17,733,870</u>	<u>8,271,959</u>	<u>63,392</u>	<u>(32,862)</u>	<u>26,036,359</u>
Total capital assets	<u>30,453,328</u>	<u>10,847,305</u>	<u>9,994,155</u>	<u>(32,862)</u>	<u>51,261,926</u>
Less accumulated depreciation for:					
Buildings	384,307	3,458,647	39,215	-	3,882,169
Water systems	5,257,740	-	594,828	-	5,852,568
Furniture, fixtures and equipment	460,241	-	9,128	(16,952)	452,417
Transportation equipment	<u>277,621</u>	<u>-</u>	<u>51,153</u>	<u>(1,763)</u>	<u>327,011</u>
Total accumulated depreciation	<u>6,379,909</u>	<u>3,458,647</u>	<u>694,324</u>	<u>(18,715)</u>	<u>10,514,165</u>
Total other capital assets, net	<u>\$ 24,073,419</u>	<u>\$ 7,388,658</u>	<u>\$ 9,299,831</u>	<u>\$ (14,147)</u>	<u>\$ 40,747,761</u>

Depreciation expense was \$694,324 for the year ended June 30, 2013.

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, 2013, employees had balances of 951 sick leave hours with a value of \$5,820 and 1,783 vacation hours with a value of \$31,031. 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, 2013 were as follows:

	Balance 06/30/12	Increase	Decrease	Balance 06/30/13	Amounts Due Within One Year
NMFA Truck Desert Sands	\$ 25,025	\$ -	\$ 11,895	\$ 13,130	\$ 13,130
NMED RIP 88-12R La Mesa	49,140	-	49,140	-	-
NMFA 2601-PP	774,180	-	20,964	753,216	19,445
USDA 92-13 Mesita Sewer	99,240	-	925	98,315	1,275
USDA 92-19 Mesquite Sewer	602,328	-	9,011	593,317	10,311
NMFA WTB-233 Berino/Del Cerro	70,114	367,049	21,344	415,819	22,350
N/P RCAC 0742 Berino/Del Cerro	-	57,284	-	57,284	57,284
N/P RCAC Organ Water	-	312,391	312,391	-	-
NMFA Radio Read Meter 2710-DW	-	150,238	-	150,238	-
NMFA 0252-WTB Surface Water	-	75,000	1,715	73,285	3,858
NMFA 2766-CIF Gravity Collect	-	167,025	-	167,025	8,352
NMFA CIF 2791 Brazito	-	58,150	-	58,150	2,908
USDA 91-07	-	73,365	462	72,903	1,120
USDA 91-09	-	36,833	227	36,606	550
USDA 91-12	-	4,673	34	4,639	70
USDA 91-14	-	212,009	1,520	210,489	3,097
USDA 91-15	-	170,755	1,226	169,529	2,490
USDA 91-02 Butterfield	-	225,285	13,212	212,073	3,795
USDA 91-04 La Mesa	-	471,000	7,203	463,797	6,701
USDA 93-09 Organ	-	101,000	1,143	99,857	1,446
WSC 85-03 R	-	34,349	5,302	29,047	9,341
Compensated absences	<u>37,954</u>	<u>36,851</u>	<u>37,954</u>	<u>36,851</u>	<u>36,851</u>
	<u>\$ 1,657,981</u>	<u>\$ 2,553,257</u>	<u>\$ 495,668</u>	<u>\$ 3,715,570</u>	<u>\$ 204,374</u>

Scheduled principal and interest payments on the Authority's long term debt are as follows:

Year Ending June 30:	Principal	Interest	Total
2014	167,523	83,775	251,298
2015	105,110	81,311	186,421
2016	105,231	79,799	185,030
2017	97,879	78,384	176,263
2018	99,193	77,010	176,203
2019-2023	522,383	361,461	883,844
2024-2028	569,034	314,190	883,224
2029-2033	600,378	254,989	855,367
2034-2038	478,529	183,005	661,534
2039-2043	429,672	99,404	529,076
2044-2048	302,592	47,271	349,863
2049-2053	201,195	10,206	211,401
Totals	<u>\$ 3,678,719</u>	<u>\$ 1,670,805</u>	<u>\$ 5,349,524</u>

Below are the terms, amounts due within one year, and maturity dates of the Authority's outstanding long term debt:

	<u>Interest Rate</u>	<u>Payment Frequency</u>	<u>Payment Amount</u>	<u>Maturity Date</u>
NMFA Truck Desert Sands	0.00%	Monthly	\$ 1,190	January 2014
NMFA 2601-PP	3.44%	Monthly	4,386	April 2041
USDA 92-13 Mesita Sewer	3.375%	Monthly	380	June 2052
USDA 92-19 Mesquite Sewer	2.00%	Monthly	1,837	June 2052
NMFA WTB-233 Berino/Del Cerro	0.25%	Yearly	22,436	June 2032
N/P RCAC 0742 Berino/Del Cerro	5.50%	Monthly	8,334	January 2014
NMFA Radio Read Meter 2710-DW	0.25%	Monthly	7,027	May 2034
NMFA 0252-WTB Surface Water	0.25%	Monthly	4,041	June 2032
NMFA 2766-CIF Gravity Collect	0.00%	Yearly	8,351	June 2033
NMFA CIF 2791 Brazito	0.00%	Yearly	2,908	June 2033
USDA 91-07	4.125%	Monthly	341	June 2045
USDA 91-09	4.25%	Monthly	174	May 2045
USDA 91-12	4.50%	Monthly	23	September 2044
USDA 91-14	3.375%	Monthly	844	February 2049
USDA RD 91-15	2.75%	Monthly	592	February 2052
USDA RD 91-02 Butterfield	5.00%	Monthly	1,204	September 2040
USDA 91-04 La Mesa	2.75%	Monthly	1,617	August 2052
USDA 93-09 Organ	2.75%	Monthly	348	July 2052
WSC 85-03 R	3.00%	Monthly	837	May 2016

6. **NET POSITION CONTRIBUTIONS**

The merged entities contributions were as follows:

Entity	Contributions
Brazito Water	\$ 3,727,560
Butterfield Park	373,138
Organ Water	<u>2,522,528</u>
Total contributions	<u>\$ 6,623,226</u>

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, 2013 was \$196,216.

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 4% 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 10% of the employee's wages towards the profit sharing option. For the fiscal year ended June 30, 2013, the Authority contributed \$23,807 in matching funds and accrued \$29,314 towards the profit sharing option.

9. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 26, 2013, the date the financial statements were available to be issued.

10. **RESTATEMENT**

An adjustment of \$11,814 was recorded during fiscal year ending June 30, 2013 to remove the asset related to debt issuance cost, which was being amortized in prior years and should be expensed according to the implementation of GASB 65.

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, 2013**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Water revenue	\$ 2,030,452	\$ 1,688,918	\$ 1,532,061	\$ (156,857)
Sewer revenue	63,100	94,500	45,077	(49,423)
Other income	300	300	113,104	112,804
Total operating income	<u>2,093,852</u>	<u>1,783,718</u>	<u>1,690,242</u>	<u>(93,476)</u>
Operating Expenses				
Salaries, labor	814,397	1,090,990	86,130	1,004,860
Accounting, legal	279,400	87,874	62,156	25,718
Taxes, insurance	540,000	120,284	215,930	(95,646)
Utilities	365,255	257,824	234,689	23,135
Supplies	274,000	350,463	132,902	217,561
Lab, chemicals	14,500	27,797	203,375	(175,578)
Debt Service	-	69,386	-	69,386
Miscellaneous	-	-	911,854	(911,854)
Fuel	-	-	2,360	(2,360)
Travel and entertainment	-	-	6,956	(6,956)
Depreciation	<u>525,000</u>	<u>606,000</u>	<u>694,324</u>	<u>(88,324)</u>
Total operating expenses	<u>2,812,552</u>	<u>2,610,618</u>	<u>2,550,676</u>	<u>59,942</u>
Excess (deficiency) of revenues over expenditures	<u>(718,700)</u>	<u>(826,900)</u>	<u>(860,434)</u>	<u>(33,534)</u>
Nonoperating revenues				
Water	190,000	216,400	-	(216,400)
Sewer	3,700	4,500	-	(4,500)
Agency loans/grants	-	-	9,497,737	9,497,737
Other expenses	<u>-</u>	<u>-</u>	<u>(19,858)</u>	<u>(19,858)</u>
Total nonoperating income	<u>193,700</u>	<u>220,900</u>	<u>9,477,879</u>	<u>9,256,979</u>
Revenue over (under) expenses	<u>\$ (525,000)</u>	<u>\$ (606,000)</u>	<u>\$ 8,617,445</u>	<u>\$ 9,223,445</u>

See accompanying notes to financial statements and independent auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type and 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, 2013, and the related notes to the financial statements, which collectively comprise Lower Rio Grande Public Water Works Authority's basic financial statements, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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*.

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.

Purpose of this Report

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

White + Samaniego + Campbell, LLP

El Paso, Texas
November 26, 2013

**INDEPENDENT AUDITORS' 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

Report on Compliance for Each Major Federal Program

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, 2013. The Lower Rio Grande Public Water Works Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lower Rio Grande Public Water Works Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Lower Rio Grande Public Water Works Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Lower Rio Grande Public Water Works Authority, complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of Lower Rio Grande Public Water Works Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lower Rio Grande Public Water Works Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

White + Samaniego + Campbell, LLP

El Paso, Texas
November 26, 2013

STATE OF NEW MEXICO
 LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2013

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 - Grant	10.760	\$ 1,569,346	\$ 1,569,346
Water and Waste Disposal Systems for Rural Communities - Loan	10.760	471,000	471,000
Water and Waste Disposal Systems for Rural Communities - Grant	10.760	2,990,382	2,114,722
Water and Waste Disposal Systems for Rural Communities - Grant	10.760	<u>6,556,081</u>	<u>5,391,580</u>
Total United States Department of Agriculture Rural Development		11,586,809	9,546,648
<i>Community Development Block Grants/Entitlement Grants</i>			
Water and Waste Disposal Systems for Rural Communities - Grant	14.218	<u>45,000</u>	<u>45,000</u>
Total Expenditures of Federal Awards		<u>\$11,631,809</u>	<u>\$ 9,591,648</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 auditors' report.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

SECTION I - SUMMARY OF AUDITORS' REPORT

FINANCIAL STATEMENTS

Type of Auditors' Report Issued	Unmodified	
Significant Deficiencies Identified?	_____ Yes	___X___ 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 Auditors' Report Issued on compliance for Major Programs	Unmodified	
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
Dollar Threshold Used to Distinguish Between Type A and Type B Programs	\$300,000	
Auditee Qualifies as Low-Risk Auditee	___X___ Yes	_____ No

**STATE OF NEW MEXICO
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

STATUS OF PRIOR YEAR FINDINGS

		Current Status
11-01	Capital Assets	Resolved
11-04	Inventory	Resolved
11-05	Under-Collateralized Bank Accounts	Resolved
12-01	Per Diem	Resolved
12-02	Overstatement of Revenues	Resolved
12-03	Compensated Absences	Resolved
12-04	Recording of Payments	Resolved
12-05	Legal Compliance With Budget	Resolved

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

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2013**

An exit conference was conducted November 26, 2013 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

Roxie Samaniego	Partner
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FINANCIAL STATEMENT PREPARATION

The combined financial statements of the Authority as of, and for the year ended, June 30, 2013 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.