



LOWER RIO GRANDE

Public Water Works Authority

STATE OF NEW MEXICO

**LOWER RIO GRANDE PUBLIC
WATER WORKS AUTHORITY**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

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STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Annual Financial Report
June 30, 2015
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<u>Name</u>	<u>Board of Directors</u>	<u>Title</u>
Robert M. Nieto		Board President
John Holguin		Board Vice President
Alma Boothe		Secretary
Raymundo Sanchez		Director
Carlos Tellez		Director
Mike McMullen		Director
Furman Smith		Director

Administrative Officials

Martin Lopez	General Manager
Kathi Jackson	Finance Manager

FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
To the Lower Rio Grande Public Water Works Authority Board of Directors
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 Grande Public Water Works Authority (the Authority), as of and for the year ended June 30, 2015, 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 also have audited the budgetary comparison presented as supplementary information, as defined by the Governmental Accounting Standards Board for the year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the 'Basis for Disclaimer of Opinion' paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Authority's capital assets.

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

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

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

Basis for Qualified Opinion on the Capital Assets of the Business-type Activities Financial Statements

Material weaknesses in internal controls over the financial close and the reporting process of the capital assets, in combination with, not obtaining sufficient audit evidence of balances presented as of June 30, 2015, has not allowed us to gain reasonable assurance as to whether the capital assets, accumulated depreciation and depreciation expense of the business-type activities of the Authority are presented fairly, in all material respects. The amount by which this departure would affect the ending assets, ending net position, and capital assets of the business-type activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the 'Basis for Qualified Opinion on the Capital Assets of the Business-type Activities Financial Statements' paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2015, 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. In addition in our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on the Capital Assets of the Business-type Activities Financial Statements" paragraph, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the year ended June 30, 2015 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 that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the Authority's financial statements and the budgetary comparisons. The Scheduled of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133 and *Supporting Schedules II through IV required by 2.2.2 NMAC* are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and *Supporting Schedules II through III required by Section 2.2.2 NMAC* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 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 schedule of Expenditures of Federal Awards and *Supporting Schedules II through III required by Section 2.2.2 NMAC* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 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* in considering the Authority's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
December 14, 2015

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Statement of Net Position
June 30, 2015

	<u>Business-Type Activities</u>
Assets	
<i>Current assets</i>	
Cash and cash equivalents	\$ 224,848
Investments	11,470
Accounts receivable	110,955
Inventory	523
Prepaid expenses	9,562
<i>Total current assets</i>	<u>357,358</u>
<i>Noncurrent assets</i>	
Restricted cash:	
Customer deposits	46,150
Construction account	376,984
NMFA reserve account	44,303
Capital assets, net of accumulated depreciation	49,769,787
<i>Total noncurrent assets</i>	<u>50,237,224</u>
<i>Total assets</i>	<u><u>\$ 50,594,582</u></u>
Liabilities	
<i>Current liabilities</i>	
Accounts payable	\$ 81,743
Accrued payroll	3,329
Accrued compensated absences	60,942
Current portion of long-term debt	132,369
Gross receipts tax payable	9,666
<i>Total current liabilities</i>	<u>288,049</u>
<i>Noncurrent liabilities</i>	
Long term debt	5,610,565
Customer deposits	46,150
<i>Total noncurrent liabilities</i>	<u>5,656,715</u>
<i>Total liabilities</i>	<u><u>5,944,764</u></u>
<i>Net position</i>	
Net investment in capital assets	44,026,853
Unrestricted	201,678
Restricted	421,287
<i>Total net position</i>	<u>44,649,818</u>
<i>Total liabilities and net position</i>	<u><u>\$ 50,594,582</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Statement of Revenues, Expenditures, and Changes in Net Position
 For the Year Ended June 30, 2015

<i>Operating revenues</i>	
Service fees	\$ 2,279,564
Activation, connection and installation fees	103,164
Late fees	57,508
Membership fees	6,550
Other income	8,478
	2,455,264
 <i>Total operating revenues</i>	
 <i>Operating expenses</i>	
Bank charges	831
Employee benefits	263,475
Materials, supplies, tools and chemicals	246,937
Depreciation	1,092,784
Salaries and wages	934,206
Office expense	115,657
Miscellaneous	18,705
Insurance	74,143
Maintenance and repairs	69,871
Professional fees	26,382
Travel and entertainment	1,424
Utilities	250,446
	3,094,861
 <i>Total operating expenses</i>	
 <i>Total operating loss</i>	
	(639,597)
 <i>Nonoperating revenues (expenses)</i>	
Grant revenue	6,710,977
Interest income	594
Rental income	3,750
Other income	78,609
Interest expense	(115,415)
(Loss) on Sale of Fixed Assets	(764,768)
	5,913,747
 <i>Total nonoperating revenues (expenses)</i>	
 <i>Change in net position</i>	
	5,274,150
 <i>Total net position - beginning of year</i>	
	39,375,668
 <i>Total net position, end of year</i>	
	\$ 44,649,818

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Statement of Cash Flows
For the Year Ended June 30, 2015

	Business-Type Activities
<i>Cash flows from operating activities</i>	
Cash received from customers	\$ 2,429,359
Cash paid to suppliers and contractors	(1,932,932)
Cash paid to employees for services	(56,788)
<i>Net cash provided by operating activities</i>	439,639
<i>Cash flows from noncapital financing activities</i>	
Rental income	3,750
Other income	78,609
<i>Net cash provided by noncapital financing activities</i>	82,359
<i>Cash flows from capital and related financing activities</i>	
Proceeds from issuance of long-term debt	157,519
Principal payments on long-term debt	(150,937)
Grants	6,710,977
Acquisition and disposal of capital assets	(6,802,184)
<i>Net cash provided (used) by capital and related financing activities</i>	(242,144)
<i>Cash flows from investing activities</i>	
Interest on investments	(10,876)
<i>Net cash used in investing activities</i>	(10,876)
<i>Net increase in cash and cash equivalents</i>	268,978
<i>Cash and cash equivalents - beginning of year</i>	423,307
<i>Cash and cash equivalents - end of year</i>	\$ 692,285
<i>Reconciliation of operating income (loss) to net cash (used) provided by operating activities:</i>	
Operating (loss) income	\$ (639,597)
Depreciation	1,092,784
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:	
Changes in assets and liabilities	
Receivables	(25,382)
Inventory	(523)
Other assets	6,302
Accounts payable	72,569
Accrued expenses	(81,094)
Current accrued compensated absences	14,640
Gross receipts tax payable	9,666
Customer deposits	(9,726)
<i>Net cash (used) provided by operating activities</i>	\$ 439,639

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 1. HISTORY AND ORGANIZATION

Lower Rio Grande Public Water Works Authority “the Authority” was organized in 2009 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.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted (US GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing US GAAP for state and local government accounting and financial reporting principles.

A. Financial Reporting Entity

The Authority is a special-purpose government created pursuant to statute and is comprised of an elected Board of Directors. 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.

The officers of the Authority have decision-making authority, the power to designate management, the responsibility to significantly-influence operations and primary accountability for fiscal matters. The Authority is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. There are no component units.

B. Basic Financial Statements - GASB Statement No. 34

The GASB Statement No. 34 reporting model focus is on either the Authority, as a whole, or major individual funds (within the fund financial statements). The Authority is a single-program government that engages in only business-type activities and has no component units.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pursuant to GASB Statement No. 34, governments engaged only in business-type activities present only the financial statements for enterprise funds. For these governments, basic financial statements consist of: (a) enterprise fund financial statements consisting of the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows, and (b) notes to the financial statements. The enterprise fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with its activities are reported. Enterprise fund equity is classified as net position. When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the Authority first uses restricted resources and then unrestricted resources.

C. Basis of Presentation -Fund Financial Statements

The accounts of the Authority are organized on the basis of one fund that is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. Government resources are allocated to and accounted for in the fund based upon the purpose for which spending activities are controlled. In this report, the fund is presented in the financial statements as a proprietary fund.

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The proprietary fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. The revenues are recognized when earned and expenses are recognized when the liability is incurred or the economic asset is used. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates for the Authority include management's estimate of the allowance for uncollectible accounts for water sales and depreciation on assets over their estimated useful lives.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, Net Position, Revenues and Expenses

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

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

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

Restricted Assets: Restricted assets 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 \$421,827.

Capital Assets: Capital assets are recorded at historical costs. Purchased 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. The major classifications of capital assets and their related depreciable lives are as follows:

Operating Revenues and Expenses: Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They include all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. Non-operating revenues include ad valorem taxes (property), miscellaneous income and interest income.

Net Position Classifications: Net investment in capital assets represents the historical cost of assets or fair value on the date of receipt less accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by the Authority or external restrictions by other governments, creditors or grantors or other amounts restricted by enabling legislation. Unrestricted net position is all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Authority follows procedures that are promulgated by the Department of Finance and Administration, Local Government Division (DFA-LGD). Those procedures are as follows:

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 DFA-LGD.
2. After the Board approves the proposed initial budget, it is then submitted to the DFA-LGD for review and certification in time to meet the DFA-LGD deadline of June 1.
3. DFA-LGD returns the approved initial budget on the first Monday in July. Fiscal year-end cash balances and any final budget adjustments are then posted to the initial budget to produce the Authority's final budget, which must be submitted to DFA-LGD by July 30.
4. Upon certification by the DFA-LGD, the budget becomes a legally binding document which does not allow total expenditures in any fund to exceed the amount budgeted.
5. The Board is authorized to make budget revisions with the DFA-LGD's approval.
6. Formal budgetary integration is employed as a management control device during the year.

The budgetary information presented in these financial statements has been properly amended by the Authority's board in accordance with the above procedures. These amendments resulted in no changes to the excess (deficiency) of revenues over expenditures for the current year.

NOTE 4. DEPOSITS AND INVESTMENTS

State statutes authorize the investment of Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The Authority is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2015.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Authority. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute.

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

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

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 4. DEPOSITS AND INVESTMENTS (continued)

By operation of federal law, beginning January 1, 2013, funds deposited in noninterest bearing accounts will no longer receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, all of the Authority's accounts at an insured depository institution, including noninterest bearing accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Authority for at least one half of the amount on deposit with the institution.

As of June 30, 2015, \$477,430 of the Authority's bank balance of \$727,430 was exposed to custodial credit risk. However all of the \$477,430 was collateralized by securities not in the Authority's name. None of the Authority's deposits were uninsured and uncollateralized at June 30, 2015. Bank accounts were collateralized as follows:

	<u>Citizens Bank</u>
Amount of deposits	\$ 727,430
FDIC Coverage	<u>(250,000)</u>
Total uninsured public funds	477,430
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	<u>477,430</u>
Uninsured and uncollateralized	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	238,715
Pledged Collateral	<u>2,100,756</u>
Over (Under) collateralized	<u>\$ 1,862,041</u>

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable consists of water billings. Accounts receivable for water billings is water utility revenue billed and unbilled but uncollected. The Authority considers the amount fully collectible and therefore has not estimated an allowance for doubtful accounts. At year-end, accounts receivable are \$110,955.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 6. CHANGES IN CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2015. Land, land improvements, water rights, and construction in progress are not subject to depreciation.

	June 30, 2014	Transfers	Additions	Deletions	Adjustments	June 30, 2015
Capital assets not depreciated:						
Land	\$ 354,686	\$ -	\$ -	\$ -	\$ -	\$ 354,686
Water rights	10,927,171	-	-	-	-	10,927,171
Construction in progress	6,579,806	(3,098,584)	6,333,889	-	(381,405)	9,433,706
Total capital assets not depreciated:	<u>17,861,663</u>	<u>(3,098,584)</u>	<u>6,333,889</u>	<u>-</u>	<u>(381,405)</u>	<u>20,715,563</u>
Capital assets depreciated:						
Buildings	1,823,812	-	-	-	-	1,823,812
Land improvements	33,633	-	-	-	-	33,633
Water systems	34,962,139	3,098,584	239,906	2,875,105	608,089	36,033,613
Furniture, fixtures and equipment	980,884	-	1,705	239,941	-	742,648
Transportation equipment	386,359	-	-	225,141	-	161,218
Total depreciable assets	<u>38,186,827</u>	<u>3,098,584</u>	<u>241,611</u>	<u>3,340,187</u>	<u>608,089</u>	<u>38,794,924</u>
Total assets	<u>56,048,490</u>	<u>-</u>	<u>6,575,500</u>	<u>3,340,187</u>	<u>226,684</u>	<u>59,510,487</u>
Accumulated depreciation:						-
Buildings	3,921,384	-	31,940	-	-	3,953,324
Land improvements	-	-	3,361	-	-	3,361
Water systems	6,462,385	-	1,033,619	2,120,579	-	5,375,425
Furniture, fixtures and equipment	461,402	-	23,864	229,700	-	255,566
Transportation equipment	378,165	-	-	225,141	-	153,024
Total accumulated depreciation	<u>11,223,336</u>	<u>-</u>	<u>1,092,784</u>	<u>2,575,420</u>	<u>-</u>	<u>9,740,700</u>
Total other capital assets, net	<u>\$ 44,825,154</u>	<u>\$ -</u>	<u>\$ 5,482,716</u>	<u>\$ 764,767</u>	<u>\$ 226,684</u>	<u>\$ 49,769,787</u>

Depreciation expense for the year totaled \$1,092,784.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 7. LONG-TERM DEBT

During the year ended June 30, 2015, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance June 30, 2014	Additions	Deletions	Adjustments	Balance June 30, 2015	Due Within One Year
Business-type activities						
USDA	\$ 2,295,406	\$ -	\$ 72,297	\$ -	\$ 2,223,109	\$ 29,121
USDA 91-04 La Mesa	457,032	-	6,971	-	450,061	7,160
USDA 92-13 Mesquite Sewer	97,058	-	1,304	-	95,754	1,338
USDA 92-19 Mesquite Sewer	583,062	-	10,478	-	572,584	10,597
USDA 91-07	71,423	-	1,168	-	70,255	1,227
USDA 93-09 Organ	98,543	-	1,492	-	97,051	1,544
USDA 91-09	35,880	-	35,880	-	-	-
USDA 91-14	206,631	-	3,204	-	203,427	3,283
USDA 91-15	166,648	-	2,559	-	164,089	2,611
USDA 91-02 Butterfield	208,104	-	4,186	-	203,918	4,273
NMFA 2601-PP	732,154	-	19,584	3,230	715,800	19,771
NMFA WTB-233 Berino Del Cerro	394,422	-	21,450	-	372,972	21,504
NMFA Radio Read Meter 2710-DW	148,750	-	6,104	-	150,776	6,668
NMFA 0252-WTB Surface Water	69,427	-	3,858	-	65,569	3,857
NMFA 2766-CIF Gravity Collect	158,673	-	8,352	-	150,321	8,352
NMFA CIF 2791 Brazito	55,242	-	2,908	-	52,334	2,908
NMFA 3156 -CIF	-	103,458	1,711	-	101,747	5,357
NMFA 3161-CIF	-	54,061	894	-	53,167	2,799
Accrued compensated absences	46,302	59,610	44,970	-	60,942	60,942
Total	\$ 5,824,757	\$ 217,129	\$ 249,370	\$ 3,230	\$ 5,803,876	\$ 193,311

NMFA LowerRio 2: On July 15, 2011, LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$790,914. The proceeds of the loan were used to refinance four loans from the United States Department of Agriculture to the following: 1) Mesquite Mutual Domestic Water Consumers and Mutual Sewage Works Association dated February 17, 2009 in the amount of \$307,000, 2) Mesquite Mutual Domestic Water Consumers and Mutual Sewage Works Association dated December 17, 2007 in the amount of \$307,400, 3) Desert Sands Mutual Domestic Water Consumers Association dated November 7, 2006 in the amount of \$50,000 and 4) La Mesa Mutual Domestic Water Consumers Association dated May 16, 2002 in the amount of \$100,000. The loan matures May 1, 2041. The blended interest rate over the term of the loan is 3.443%. Principal and interest are paid annually.

NMFA LowerRio 3: On January 20, 2012 LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$437,163. The proceeds of the loan were used for replacement of water utility system transmission and distribution upgrades for the Mesquite area and the Berino area to blend water sources to achieve compliance with arsenic standards for drinking water. The loan matures June 1, 2032. The blended interest rate over the term of the loan is 0.250%. Principal and interest are paid annually.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 7. LONG-TERM DEBT (continued)

NMFA LowerRio 4: On June 15, 2012, LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$150,238. The proceeds of the loan were used for the installation and replacement of manual-read water meters with radio-read water meters. The loan matures May 1, 2034. The blended interest rate over the term of the loan is 0.250%. Principal is paid annually and interest is paid twice a year.

NMFA LowerRio 5: On December 21, 2012, LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$75,000. The proceeds were used for the final planning and design phase of a proposed Surface Water/Brackish Water Treatment Facility. The loan matures on June 1, 2032. The blended interest rate over the term of the loan is 0.250%. Principal is paid annually and interest is paid twice a year.

NMFA LowerRio 6: On March 1, 2013, LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$167,025. The proceeds were used for the design and construction of a sewer system to eliminate existing septic system and wetlands treatment plant and replacing it with a gravity collection system connected to the Dona Ana County South Central Regional Treatment Plant. The loan matures June 1, 2033. There is no interest rate for this loan. Principal payments are paid annually.

NMFA Brazito: On May 7, 2013, LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$58,150. The proceeds were used for phase one of construction to replace main waterlines. It includes new water main, fire hydrants and upgrades to the pipes. The loan matures on June 1, 2033. There is no interest rate for this loan. Principal payments are paid annually.

NMFA LowerRio 10: On February 1, 2015, LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$103,458. The proceeds were used for extension of water lines to provide service to homes in the Veterans Road area whose wells had failed due to the drop in the water table. The loan matures on June 1, 2034. There is no interest rate for this loan. Principal payments are paid annually.

NMFA LowerRio 11: On February 1, 2015, LRGPWWA executed a loan agreement with the New Mexico Finance Authority in the amount of \$54,061. The proceeds were used for extension of sewer lines between Mesquite and Brazito to provide service to additional homes. The loan matures on June 1, 2034. There is no interest rate for this loan. Principal payments are paid annually.

USDA 91-02: On June 11, 2014, LRGPWWA executed a promissory note with the United States Department of Agriculture in the amount of \$2,304,000. The proceeds were used for the water system project improvements. The note matures on June 11, 2054 and has an interest rate of 3.25% per annum. Installments are paid monthly.

USDA 91-07: On September 8, 2005, Brazito Mutual Domestic Water Consumers Association executed a promissory note with the United States Department of Agriculture in the amount of \$80,000. The proceeds were used for the water system project improvements. The note matures on August 8, 2045 and accrues an interest rate of 4.125% per annum. Installments are paid monthly.

USDA 91-09: On January 17, 2006, Brazito Mutual Domestic Water Consumers Association executed a promissory note with the United States Department of Agriculture in the amount of \$40,000. The proceeds were used for the water system project improvements. The note matures on January 17, 2046 and accrues an interest rate of 4.250% per annum. Installments are paid monthly.

USDA 91-14: On October 26, 2009, Brazito Mutual Domestic Water Consumers Association executed a promissory note with the United States Department of Agriculture in the amount of \$222,000. The proceeds were used for the water system project improvements. The note matures on October 26, 2049 and accrues an interest rate of 3.375% per annum. Installments are paid monthly.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 7. LONG-TERM DEBT (continued)

USDA 91-15: On May 22, 2012, Brazito Mutual Domestic Water Consumers Association executed a promissory note with the United States Department of Agriculture in the amount of \$172,000. The proceeds were used for the water system project improvements. The note matures on June 22, 2052 and accrues an interest rate of 2.750% per annum. Installments are paid monthly.

USDA 91-02: On August 31, 2000, Butterfield Park MDWC and MSWA executed a promissory note with the United States Department of Agriculture in the amount of \$250,000. The proceeds were used for the water system project improvements. The note matures on September 28, 2040 and accrues an interest rate of 5% per annum. Installments are paid monthly.

USDA 91-04: On August 20, 2012, LRGPWVA executed a promissory note with the United States Department of Agriculture in the amount of \$471,000. The proceeds were used for the water system project improvements. The note matures on August 20, 2052 and has an interest rate of 2.75% per annum. Installments are paid monthly.

USDA 92-13 and 92-19: On April 26, 2012, LRGPWVA executed two promissory notes, USDA 92-13 and USDA 92-19 with the United States Department of Agriculture in the amount of \$100,000 and 606,000 respectively. The proceeds were used to replace the failing sewer main lines and other sewer system improvements. The notes mature on April 26, 2052 and have interest rates of 3.375% and 2% respectively. Installments are paid monthly.

USDA 93-09: On September 14, 2012, Organ Water and Sewer Association executed a promissory note with the United States Department of Agriculture in the amount of \$101,000. The proceeds were used for the water system project improvements. The note matures on September 14, 2052 and has an interest rate of 2.75% per annum. Installments are paid monthly.

The annual requirements to amortize the loans with NMFA as of June 30, 2015, including interest are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 132,473	\$ 150,803	\$ 283,276
2017	134,663	148,603	283,266
2018	136,963	146,292	283,255
2019	139,380	143,866	283,246
2020	142,842	141,325	284,167
2021-2025	756,271	664,387	1,420,658
2026-2030	837,913	582,443	1,420,356
2031-2035	787,126	472,880	1,260,006
2036-2040	780,806	341,883	1,122,689
2041-2045	710,026	220,073	930,099
2046-2050	698,618	117,296	815,914
2051-2054	485,853	20,226	506,079
	<u>\$ 5,742,934</u>	<u>\$ 3,150,077</u>	<u>\$ 8,893,011</u>

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, 2015 employees had balances of 1,128 sick leave with a value of \$9,696 and 2,546 vacation hours with a value of \$51,246. Upon termination, all accumulated vacation and 1 hour for every 3 accumulated hours for sick leave will be paid to the employee.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2015

NOTE 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, 2015 was \$74,143.

NOTE 9. 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, 2015, the Authority contributed \$28,415.

NOTE 10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 14, 2015, the date the financial statements were available to be issued.

NOTE 11. SUBSEQUENT PRONOUNCEMENTS

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. This pronouncement will not effect the Authority's financial statements.

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

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Authority will implement this standard during the fiscal year ended June 30, 2016. The Authority expects the pronouncement to have a material effect on the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures* was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The Authority will implement this standard during the fiscal year ended June 30, 2017. The Authority is still evaluating how this pronouncement will effect the financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
For the Year Ended June 30, 2015

Schedule I

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Water revenue	\$ 1,962,958	\$ 2,106,710	2,279,564	\$ 172,854
Sewer revenue	301,387	148,131	103,164	(44,967)
Other Income	300	594	72,536	71,942
<i>Total operating revenues</i>	<u>2,264,645</u>	<u>2,255,435</u>	<u>2,455,264</u>	<u>199,829</u>
<i>Operating expenses</i>				
Salaries, labor	1,224,949	1,170,308	934,206	236,102
Accounting, legal	95,925	89,852	27,213	62,639
Taxes, insurance	93,500	73,320	337,618	(264,298)
Utilities	258,400	264,201	250,446	13,755
Supplies	437,500	346,703	185,528	161,175
Lab, chemicals	115,387	72,008	246,937	(174,929)
Debt service	356,942	524,806	-	524,806
Miscellaneous	-	-	18,705	(18,705)
Travel and entertainment	-	-	1,424	(1,424)
Depreciation	760,000	1,092,784	1,092,784	-
<i>Total operating expenses</i>	<u>3,342,603</u>	<u>3,633,982</u>	<u>3,094,861</u>	<u>539,121</u>
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>				
	<u>(1,077,958)</u>	<u>(1,378,547)</u>	<u>(639,597)</u>	<u>(339,292)</u>
<i>Non-operating revenues (expenses)</i>				
Water	312,958	281,197	-	(281,197)
Sewer	5,000	4,566	-	(4,566)
Agency grants	-	-	6,710,977	6,710,977
Other expenses	-	-	(797,230)	(797,230)
<i>Total non-operating revenues (expenses)</i>	<u>317,958</u>	<u>285,763</u>	<u>5,913,747</u>	<u>5,627,984</u>
Revenue over (under) expenses	<u>\$ (760,000)</u>	<u>\$ (1,092,784)</u>	<u>\$ 5,274,150</u>	<u>\$ 5,288,692</u>

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Schedule of Collateral Pledged by Depository For Public Funds
 June 30, 2015

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value June 30, 2015	Name and Location of Safekeeper
Citizens Bank of Las Cruces	FHLB	9/8/2017	313370SZ2	\$ 1,550,045	Federal Reserve Bank Boston, MA
Citizens Bank of Las Cruces	FHLB	12/9/2016	3133XHVS8	<u>550,711</u>	The Independent Bankers Bank, Dallas TX
Total Pledged Collateral				<u><u>\$ 2,100,756</u></u>	

See independent auditors' report

STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Schedule of Deposit and Investment Accounts
 June 30, 2015

Account Name/Type	Deposits Citizens Bank of Las Cruces	Totals
Deposits:		
Citizens Bank of Las Cruces		
Operating Account	\$ 150,563	\$ 150,563
Debt Service	187,854	187,854
La Mesa Water Project	337	337
Mesquite Water Sewer	222	222
Berino/Mesquite Water Project	224	224
Reserve	376,686	376,686
Organ Water and Sewer	74	74
Certificate of Deposit	11,470	11,470
Total Citizens Bank of Las Cruces	<u>727,430</u>	<u>727,430</u>
New Mexico Finance Authority - Reserve Account		
NMFA - LowerRio 2 - Reserve Account	44,303	44,303
Total deposits and investments	<u>771,733</u>	<u>771,733</u>
Reconciling items		
	<u>(67,978)</u>	<u>(67,978)</u>
Reconciled balance	<u>\$ 703,755</u>	<u>\$ 703,755</u>
Unrestricted cash:		
Cash and cash equivalents		\$ 224,848
Restricted cash:		
Customer Deposits		46,150
Construction Account		376,984
NMFA-reserve account		44,303
Total restricted cash		<u>467,437</u>
Unrestricted investments:		
Investments		<u>11,470</u>
Total cash and investments		<u>\$ 703,755</u>

See independent auditors' report

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Schedule of Vendor Information for Purchases Exceeding \$60,000 (excluding GRT)
For the Year Ended June 30, 2015

RFB/ RFP #	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded	In-State/ Out- of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in- state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
2014.01	RFP	09/08/2014	7,873,621.50	(1,886,297)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	11/10/2014		(349,814)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	12/01/2014		(303,516)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	12/16/2014		(265,600)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	04/30/2015		(260,310)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	04/01/2015		(255,843)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	01/29/2015		(255,713)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	06/03/2015		(231,612)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
	RFP	03/09/2015		(228,458)	Smithco Construction Inc.	Y	N	Berino, Mesquite, Del Cerro Water Project
2014.02	RFP	06/11/2015	415,200.48	(109,149)	Western Buildings & Development	Y	N	Brazito Water Project
	RFP	06/26/2015		(87,178)	Western Buildings & Development	Y	N	Brazito Water Project
	RFP	06/11/2015		(109,149)	Western Buildings & Development	Y	N	Brazito Water Project
		02/13/2015		(77,535)	ePlan Services, Inc.	Y	N	Plan Id # 134473 2014 Annual Contribution
		07/03/2014		(70,377)	ePlan Services, Inc.	Y	N	2013 Annual Contrib.

COMPLIANCE SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

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

INDEPENDENT AUDITORS' REPORT

Timothy M. Keller
New Mexico State Auditor
The Office of Management and Budget
The Lower Rio Grande Public Water Works Board of Directors
Lower Rio Grande Public Water Works
Vado, 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 activities and the budgetary comparisons of Lower Rio Grande Public Water Works Authority (the Authority) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item 2015-001 to be a material weakness.

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 did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority's Response to Findings

The Authority's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
December 14, 2015

FEDERAL FINANCIAL ASSISTANCE



Accounting & Consulting Group, LLP
Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
To the Lower Rio Grande Public Water Works Authority Board of Directors
Lower Rio Grande Public Water Works Authority
Vado, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Lower Rio Grande Public Water Works Authority's (the Authority) 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 Authority's major federal program for the year ended June 30, 2015. The Authority's major federal program is 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 program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 the Authority's compliance.

Opinion on Major Federal Program

In our opinion, the 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 program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the 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 the 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 our opinion on compliance for the 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 the 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, as defined above. 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.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
December 14, 2015

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STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2015

Federal Grantor/Pass Through Grantor/Program Title	Pass Thru Number	Federal C.F.D.A. Number	Expenses
U.S. Department of Agriculture			
<i>Direct United States Department of Energy</i>			
Water and Waste Disposal System for Rural Communities* *		10.760	<u>\$ 2,209,672</u>
Total U.S. Department of Agriculture			<u>2,209,672</u>
Total Federal Financial Assistance			<u><u>\$ 2,209,672</u></u>

* Major program

See independent auditor's report
 See accompanying notes to schedule of expenditures of federal awards

STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2015

Notes to Schedule of Expenditures of Federal AwardsBasis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Lower Rio Grande Public Water Works Authority, (Authority) and is presented on the accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. 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 the preparation of the financial statements.

Subrecipients

The Authority did not provide any federal awards to subrecipients during the year.

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

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 2,209,672
Total expenses funded by other sources	<u>885,189</u>
Total expenses	<u><u>\$ 3,094,861</u></u>

See independent auditor's report
 See accompanying notes to schedule of expenditures of federal awards

Section I – Summary of Audit Results

Financial Statements:

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

Federal Awards:

- | | |
|-----------------------------------------------------------------------------------------------------------------------|------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | None Noted |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Noted |
| 2. Type of auditors’ report issued on compliance for major programs | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | None Noted |
| 4. Identification of major programs: | |

<u>CFDA Number</u>	<u>Federal Program</u>
10.760	Water and Waste Disposal Systems for Rural Communities

- | | |
|-----------------------------------------------------------------------------|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 6. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

FS 2015-001 Capital Asset – Material Weakness

Condition: During our testwork we noted that that the Authority lacks an adequate fixed asset accounting system which is capable of generating lists of capital assets useful for managing them. The Authority lacks processes of internal controls over their capital asset listing to ensure the information is correct. This includes:

- The capital asset system was not being reconciled during the fiscal year
- Several assets on the listing did not have the required information to properly describe, track, or monitor the assets
- The Authority did not perform the required annual inventory
- The Authority does not have proper processes in place to track the valuation of water and sewer infrastructure projects transferred from merged entities

Criteria: Section 2.20.1 of NMAC requires agencies to properly account for capital assets. The required capital asset accounting system is described in Section 2.20.1.8 of NMAC. Proper controls over the capital assets are described in Section 2.20.1.15 of NMAC. The statutory annual inventory requirement is described in Section 2.20.1.16 of NMAC. Section 12-6-10 NMSA1978 requires that the Authority’s capital asset inventory list any item costing more than \$5,000, effective June 17, 2005. Per guidance from the State Auditor dated September 8, 2006, the older capital asset items that did not meet the new capitalization threshold were supposed to remain on the list until they are disposed of in accordance with applicable statutes. Per NMAC 6.20.2.22, capital assets shall be acquired and accounted for through the development and implementation of a complete property control system to include capital asset depreciation by function.

Effect: Without proper accounting for capital asset additions, deletions, transfers and depreciation, the financial statements of the Authority may be misstated.

Cause: The Authority does not have a sufficient internal control system in place to properly account for capital assets.

Auditors’ Recommendations: The Authority must conduct a physical inventory of its capital assets in accordance with state statute and update the inventory annually. The inventory report must include asset identification, location and historical cost. This process will also assist the Authority in the determination of obsolete and damaged assets. Finally, a complete and updated capital assets inventory listing is necessary in order for the Authority to record capital assets and accumulated depreciation in accordance with GAAP. We also recommend that the capital asset listing is properly set up as to the function of each capital asset to ensure the Authority is able to properly classify the depreciation expense by function.

Agency’s Response: The Authority has implemented a new Fixed Asset accounting system, purchased from Tyler Technologies on 09/24/14. The Finance Manager will implement a more timely and efficient process for accounting for capital assets and related depreciation in FYE 2016. A new policy will be implemented for acquisition of infrastructure by FYE 2016. The Finance Manager will review and update the capital asset policy (as necessary) on annual basis. An annual inventory of all assets including the assessment of impairment for infrastructure will be managed by the management team consisting of the General Manager, Operations Manager, Finance Manager and Projects Manager.

Section III – Prior Year Audit Findings

No prior year findings.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Other Disclosures
June 30, 2015

OTHER DISCLOSURES

Exit Conference

An exit conference was held on December 14, 2015. In attendance were the following:

Representing Lower Rio Grande Public Water Works Authority:

Roberto M. Nieto, Board President
Martin Lopez, General Manager
Kathi Jackson, Finance Manager

Representing Accounting & Consulting Group, LLP:

Roxie Samaniego, CPA, Partner
Sonya Moreno, CPA, Manager

Auditor Prepared Financial Statements

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of Lower Rio Grande Public Water Works Authority from the original books and records provided to them by the management of the Authority. The responsibility for the financial statements remains with the Authority.