



State of
New Mexico
Lower Rio Grande
Public Water
Works Authority

Annual Financial Report
For the Year Ended June 30, 2016



STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Annual Financial Report
 June 30, 2016
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STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Board of Directors
June 30, 2016

Board of Directors

<u>Name</u>	<u>Title</u>
John Holguin	Chairman
Mike McMullen	Vice-Chairman
Raymundo Sanchez	Director
Roberto "Marty" Nieto	Director
Furman Smith	Director
Virginia Gomez	Secretary

Administrative Officials

Martin Lopez	General Manager
Kathi Jackson	Finance Manager

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
The Office of Management and Budget
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 Lower Rio Grande Public Water Works Authority (the Authority), as of and for the year ended June 30, 2016, 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, 2016, 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.

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 Authority'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 Authority'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 financial position of the business-type activities of the Authority as of June 30, 2016, and the change in financial position and 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, the budget comparison referred to above presents fairly, in all material respects, the budgetary comparison of the Authority 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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

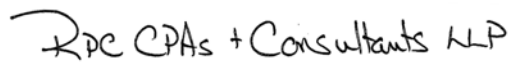
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements and the budgetary comparison. The introductory section, the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Schedules II through Schedule IV required by Section 2.2.2.NMAC are presented for 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 IV 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 Schedule of Expenditures of Federal Awards and Supporting Schedules II and III are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The introductory section and Schedule IV have 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 15, 2016 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.



RPC CPAs + Consultants, LLP
Albuquerque, NM
December 15, 2016

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Statement of Net Position
June 30, 2016

Exhibit A

	Business-Type Activities
Assets	
<i>Current assets</i>	
Cash and cash equivalents	\$ 262,367
Investments	11,504
Accounts receivable	557,659
Inventory	21,460
Prepaid expenses	15,933
<i>Total current assets</i>	868,923
<i>Noncurrent assets</i>	
Restricted cash:	
Customer deposits	55,890
Construction account	382,655
Restricted investments	56,206
Capital assets, net of accumulated depreciation	63,618,672
<i>Total noncurrent assets</i>	64,113,423
<i>Total assets</i>	\$ 64,982,346
Liabilities	
<i>Current liabilities</i>	
Accounts payable	\$ 476,143
Gross receipts tax payable	13,055
Accrued payroll	28,371
Accrued interest expense	18,134
Customer deposits	55,890
Accrued compensated absences	73,654
Current portion of long-term debt	148,275
<i>Total current liabilities</i>	813,522
<i>Noncurrent liabilities</i>	
Long term debt	5,679,294
<i>Total noncurrent liabilities</i>	5,679,294
<i>Total liabilities</i>	6,492,816
<i>Net position</i>	
Net investment in capital assets	57,791,103
Restricted	438,861
Unrestricted	259,566
<i>Total net position</i>	58,489,530
<i>Total liabilities and net position</i>	\$ 64,982,346

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, 2016

Exhibit B

	Business-Type Activities
<i>Operating revenues</i>	
Service fees	\$ 2,626,784
Activation, connection and installation fees	112,328
Late fees	67,667
Membership fees	5,810
Other operating income	10,588
	2,823,177
 <i>Operating expenses</i>	
Bank charges	9,017
Employee benefits	321,160
Materials, supplies, tools and chemicals	140,825
Depreciation	1,419,973
Salaries and wages	973,160
Office expense	99,173
Miscellaneous	24,506
Insurance	83,958
Maintenance and repairs	120,009
Professional fees	83,775
Travel and entertainment	3,593
Utilities	287,808
	3,566,957
 <i>Total operating loss</i>	(743,780)
 <i>Nonoperating revenues (expenses)</i>	
Grant revenue	5,182,455
Interest income	650
Rental income	15,827
Other income	92,034
Interest expense	(88,032)
	5,202,934
 <i>Change in net position</i>	4,459,154
 <i>Total net position - beginning of year</i>	44,649,818
 <i>Prior period restatement (see Note 13)</i>	9,380,558
 <i>Total net position - beginning of year, as restated</i>	54,030,376
 <i>Total net position - end of year</i>	\$ 58,489,530

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, 2016

Exhibit C

	Business-Type Activities
<i>Cash flows from operating activities</i>	
Cash received from user charges	\$ 2,777,991
Cash payments to employees for services	(935,406)
Cash payments to suppliers for goods and services	(803,343)
<i>Net cash provided (used) by operating activities</i>	1,039,242
<i>Cash flows from noncapital financing activities</i>	
Miscellaneous income	107,861
<i>Net cash provided (used) by noncapital financing activities</i>	107,861
<i>Cash flows from investing activities</i>	
Sale (Purchase) of investments	(34)
Interest on investments	650
<i>Net cash provided (used) by investing activities</i>	616
<i>Cash flows from capital and related financing activities</i>	
Acquisition of capital assets	(6,280,078)
Capital grants	5,182,455
Interest paid	(69,898)
Proceeds from issuance of long-term debt	229,496
Principal payments on bonds and loans payable	(144,861)
<i>Net cash provided (used) by capital and related financing activities</i>	(1,082,886)
<i>Net (decrease) increase in cash and cash equivalents</i>	64,833
<i>Cash and cash equivalents - beginning of year</i>	692,285
<i>Cash and cash equivalents - end of year</i>	\$ 757,118
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (743,780)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,419,973
Changes in assets and liabilities	
Receivables	(54,926)
Inventory	(20,937)
Prepaid expenses	(6,371)
Accounts payable	395,784
Accrued payroll expenses	25,042
Gross receipts tax payable	2,005
Accrued compensated absences	12,712
Customer deposits	9,740
<i>Net cash provided (used) by operating activities</i>	\$ 1,039,242

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, 2016

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 Doña 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.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential programs and operations of the Authority. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing board by the Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its users, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its users.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 2. Summary of Significant Accounting Policies (continued)

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the Authority has 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.

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.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 2. Summary of Significant Accounting Policies (continued)

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.

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 \$382,655. The Authority also has restricted cash in the amount of \$55,890 that has been classified as restricted for customer deposits.

Capital Assets: Capital assets, which include property, plant, and equipment, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). Contributed capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Notes to Financial Statements
 June 30, 2016

NOTE 2. Summary of Significant Accounting Policies (continued)

Depreciation is recorded using the straight-line method based on the estimated useful life of the asset. The following lives are utilized:

Assets	Years
Building and improvements	5 years – 40 years
Land improvements	7 years – 20 years
Water and sewer system	5 years – 15 years
Furniture, fixtures, and equipment	5 years – 10 years
Vehicles	5 years – 15 years

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 grant revenue, rent revenue, other income and interest income.

Net Position: Net position is reported in three categories: net investment in capital assets, restricted, and unrestricted:

- **Net investment in capital assets** – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net position** – Net position is reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – Net position that does not meet the definition of “restricted” or “net investment in capital assets.”

New Accounting Standards Adopted

During the year ended June 30, 2016, the Authority adopted GASB Statements No. 72, *Fair Value Measurement and Application*, No 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, No. 79, *Certain External Investment Pools and Pool Participants*, and No. 82. *Pension Issues-an amendment of GASB Statement No. 67, No. 68, and No.73*. These five Statements are required to be implemented as of June 30, 2016, if applicable.

GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance comparability of financials statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 2. Summary of Significant Accounting Policies (continued)

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement is effective for June 30, 2016 year end and a portion is effective for June 30, 2017 year end. Effective for June 30, 2016 are the amendments for Statements 67 and 68 and assets accumulated for pensions not administered as trusts.

The amendments of this pronouncement clarifies application of certain provisions of GASB 67 and 68 by (1) clarifying information required to be presented as notes to the 10-year schedules of RSI about investment-related factors that significantly affect trends in reported amounts; (2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities; (3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in special funding situation.

In addition, effective for June 30, 2016 year ends the requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. Effective for June 30, 2017 is the pension provided through pension plans that are not administered through trusts which follows principals of Statement No. 68 for employer measurement, financial reporting and disclosure. Key differences include (1) no investment or pension plan related amounts or disclosures, (2) discount using 20-year tax exempt high quality municipal bond index, (3) total pension liability recorded by the employer, (4) no deferral relating to differences between expected and actual earnings on plan investments, (5) no expected return on plan investments component of pension expense, (6) no investment related disclosure, and (7) no discount rate calculation rate disclosure. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities.

The objective of GASB Statement No. 76 objective is to identify-in the context of the current governmental financial reporting environment-the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAPP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

GASB Statement No. 79 addresses the accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 2. Summary of Significant Accounting Policies (continued)

investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool for measuring all of its investments at amortized cost for financial reporting purposes. Professional judgement is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide for qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

The Objective of GASB Statement No. 82 is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and; (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements

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.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

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, 2016.

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.

The Authority's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000 for demand deposit accounts and \$250,000 for time and savings accounts.

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, \$659,528 of the Authority's bank balance of \$909,528 was exposed to custodial credit risk. However, all of the \$659,528 was collateralized by securities held by pledging institutions, not in the Authority's name. None of the Authority's deposits were uninsured and uncollateralized at June 30, 2016. Bank accounts were collateralized as follows:

	<u>Citizens Bank</u>
Amount of deposits	\$ 909,528
FDIC Coverage	<u>(250,000)</u>
Total uninsured public funds	659,528
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Authority's name	 <u>659,528</u>
Uninsured and uncollateralized	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	 \$ 329,764
Pledged Collateral	<u>2,038,089</u>
Over (Under) collateralized	<u>\$ 1,708,325</u>

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 4. Deposits and Investments (continued)

Reconciliation to Statement of Net Position

The carrying amount of deposits and investments shown above are included in the Authority's statement of net position as follows:

Cash and cash equivalents per Exhibit A	\$ 262,367
Investments per Exhibit A	11,504
Restricted cash and cash equivalents per Exhibit A - Customer Deposits	55,890
Restricted cash and cash equivalents per Exhibit A - Construction Reserve	382,655
Restricted investments per Exhibit A - NMFA Reserve	<u>56,206</u>
 Total cash and investments per Exhibit A	 <u>768,622</u>
 Add: outstanding checks	 184,480
Add: unreconciled difference	14,691
Less: petty cash & returned/undeposited items	(2,059)
Less: Investments in U.S. Treasury money market mutual funds	<u>(56,206)</u>
 Bank balance of deposits	 <u><u>\$ 909,528</u></u>

NOTE 5. Fair Value Measurements

The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. See above for discussion of valuation methodologies used to measure fair value of investments.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 5. Fair Value Measurements (continued)

The Authority maintained a balance of \$56,206 in U.S. Treasury money market mutual funds at year end which required fair value disclosure.

The following table sets forth by level within the fair value hierarchy, the Authority's assets at fair value as of June 30, 2016:

<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
\$ 56,206	\$ 56,206	\$ -	\$ -

NOTE 6. Accounts Receivable

Accounts receivable consists of water and sewer service billings. Accounts receivable for water and sewer service billings is water and sewer 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 \$557,659.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 7. Capital Assets

The following is a summary of capital assets and changes occurring during the year ended June 30, 2016. Land, water rights, and construction in progress are not subject to depreciation.

	Balance				Balance
	June 30, 2015	Adjustments	Additions	Deletions	June 30, 2016
Capital assets not depreciated:					
Land	\$ 354,686	\$ 404,475	\$ -	\$ -	\$ 759,161
Water rights	10,927,171	6,424,980	-	-	17,352,151
Construction in progress	9,433,706	-	5,913,102	-	15,346,808
Total capital assets not depreciated:	<u>20,715,563</u>	<u>6,829,455</u>	<u>5,913,102</u>	<u>-</u>	<u>33,458,120</u>
Capital assets depreciated:					
Buildings and improvements	1,823,812	338,384	-	-	2,162,196
Land improvements	33,633	78,135	-	-	111,768
Water and sewer system	36,033,613	3,628,573	185,255	-	39,847,441
Furniture, fixtures, and equipment	742,648	(314,009)	10,727	-	439,366
Transportation equipment	161,218	883,605	170,994	-	1,215,817
Total depreciable assets	<u>38,794,924</u>	<u>4,614,688</u>	<u>366,976</u>	<u>-</u>	<u>43,776,588</u>
Total assets	<u>59,510,487</u>	<u>11,444,143</u>	<u>6,280,078</u>	<u>-</u>	<u>77,234,708</u>
Less accumulated depreciation:					
Buildings and improvements	3,953,324	(3,497,091)	55,087	-	511,320
Land improvements	3,361	75,268	4,110	-	82,739
Water and sewer system	5,375,425	5,223,837	1,268,661	-	11,867,923
Furniture, fixtures, and equipment	255,566	81,261	11,847	-	348,674
Transportation equipment	153,024	572,088	80,268	-	805,380
Total accumulated depreciation	<u>9,740,700</u>	<u>2,455,363</u>	<u>1,419,973</u>	<u>-</u>	<u>13,616,036</u>
Net book value	<u>\$ 49,769,787</u>	<u>\$ 8,988,780</u>	<u>\$ 4,860,105</u>	<u>\$ -</u>	<u>\$ 63,618,672</u>

Depreciation expense for the year totaled \$1,419,973.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 8. Long Term Debt

During the year ended June 30, 2016, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>	Due Within <u>One Year</u>
Business-type activities					
New Mexico Finance Authority					
Loans (NMFA)	\$ 1,654,556	\$ 126,096	\$ 71,887	\$ 1,708,765	\$ 71,512
United States Department of					
Agriculture Loans (USDA)	4,088,378	103,400	72,974	4,118,804	76,763
Accrued compensated absences	<u>60,942</u>	<u>85,865</u>	<u>73,153</u>	<u>73,654</u>	<u>73,654</u>
Total	<u>\$ 5,803,876</u>	<u>\$ 315,361</u>	<u>\$ 218,014</u>	<u>\$ 5,901,223</u>	<u>\$ 221,929</u>

NMFA Loans: The Authority has entered into nine loan agreements with the New Mexico Finance Authority, wherein the Authority has pledged revenue derived from operations to cover debt service. This revenue is not subject to intercept agreements. The NMFA loans are as follows:

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.

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.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 8. Long Term Debt (continued)

NMFA Brazito: On May 7, 2013, LRGPWVA 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, LRGPWVA 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, LRGPWVA 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.

NMFA LowerRio 13: On February 26, 2016, LRGPWVA executed a loan agreement with the New Mexico Finance Authority in the amount of \$299,427 (however only \$126,026 has been drawn down to date). The proceeds were used for the purchase of the Valle Del Rio water system. The loan matures on June 1, 2034. There is no interest rate for this loan. Principal payments are paid annually.

The annual requirements to amortize the NMFA Loans as of June 30, 2016, including interest payments are as follows:

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 71,512	\$ 24,527	\$ 96,039
2018	86,476	24,171	110,647
2019	86,880	23,727	110,607
2020	88,325	23,234	111,559
2021	88,853	22,695	111,548
2022-2026	447,067	103,722	550,789
2027-2031	399,076	81,342	480,418
2032-2036	218,316	46,749	265,065
2037-2041	181,528	27,477	209,005
2042	40,732	1,669	42,401
	<u>\$ 1,708,765</u>	<u>\$ 379,313</u>	<u>\$ 2,088,078</u>

USDA Loans: The Authority has entered into nine loan agreements with the United States Department of Agriculture (USDA), wherein the Authority has pledged revenue derived from operations to cover debt service. This revenue is not subject to intercept agreements. The USDA loans are as follows:

USDA 91-02: On June 11, 2014, LRGPWVA 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 91-04: 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.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 8. Long Term Debt (continued)

USDA 92-13 and 92-19: On April 26, 2012, LRGPWWA 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 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 93-09: 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.

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 97-25: On January 26, 2016, the Authority executed a promissory note with the United States Department of Agriculture in the amount of \$103,400. The proceeds were used for the purchase of new vehicles for use in Authority operations. The note matures on January 26, 2023 and has an interest rate of 3.13% per annum. Installments are paid monthly.

The annual requirements to amortize the loans with USDA as of June 30, 2016, including interest are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 76,763	\$ 127,689	\$ 204,452
2018	79,149	125,302	204,451
2019	81,613	122,838	204,451
2020	84,157	120,294	204,451
2021	86,784	117,667	204,451
2022-2026	415,868	550,098	965,966
2027-2031	457,202	482,675	939,877
2032-2036	534,401	405,478	939,879
2037-2041	610,876	314,406	925,282
2042-2046	645,018	218,404	863,422
2047-2051	709,284	117,295	826,579
2052-2054	337,689	20,227	357,916
	<u>\$ 4,118,804</u>	<u>\$ 2,722,373</u>	<u>\$ 6,841,177</u>

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 8. Long Term Debt (continued)

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, 2016 employees had balances of 1,284 sick leave with a value of \$10,406 and 2,984 vacation hours with a value of \$63,248. Upon termination, all accumulated vacation and 1 hour for every 3 accumulated hours for sick leave will be paid to the employee.

NOTE 9. 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, 2016 was \$74,143.

NOTE 10. 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, 2016, the Authority contributed \$88,031.

NOTE 11. Joint Powers Agreements & Memorandums of Understanding

The Authority is the fiscal agent for the Southwest Border HIDTA – New Mexico. As part of being the Fiscal Agent, the Authority assumes the administrative and financial responsibilities as required by the grant agreement between the Authority and the Office of National Drug Control Policy.

NOTE 12. Subsequent Events

Management has evaluated subsequent events through December 15, 2016, the date the financial statements were available to be issued.

NOTE 13. Net Position Restatement

The Authority has restated net position in the amount of \$9,380,558. Of that restatement, \$8,988,780 is related to the Authority's capital assets balances and the associated accumulated depreciation. The Authority re-evaluated the capital assets inventory and useful lives, and posted adjustments to properly reflect the results of these procedures. The Authority also restated net position in the amount of \$391,778 related to prior year unbilled accounts receivable at year end.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Notes to Financial Statements
June 30, 2016

NOTE 14. Subsequent Pronouncements

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. Effective Date: A portion of this provision of this Statement are effective for financial statements for periods beginning after June 15, 2016. Earlier application is encouraged. The Authority does not expect this pronouncement to have a material effect on the financial statements as they do not participate in such a plan.

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 affect 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 does not expect this pronouncement to have a material effect on the financial statements as they do not participate in such a plan.

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 affect the financial statements.

In December 2015, GASB Statement No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The Authority does not expect this pronouncement to have a material effect on the financial statements as they do not participate in such a plan.

In January 2016, GASB Statement No. 80 *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged. The Authority is still evaluating how this pronouncement will affect the financial statements.

In March 2016, GASB Statement No. 81 *Irrevocable Split-Interest Agreements*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The Authority is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83 *Certain Asset Retirement Obligations* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Authority is still evaluating how this pronouncement will affect the financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
For the Year Ended June 30, 2016

Schedule I

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Service fees	\$ 2,381,000	\$ 2,381,000	\$ 2,626,784	\$ 245,784
Activation, connection and installation fees	85,000	85,000	112,328	27,328
Late fees	-	-	67,667	67,667
Membership fees	11,500	11,500	5,810	(5,690)
Other income	43,750	43,750	10,588	(33,162)
<i>Total operating revenues</i>	<u>2,521,250</u>	<u>2,521,250</u>	<u>2,823,177</u>	<u>301,927</u>
<i>Operating expenses</i>				
Bank charges	3,805	3,805	9,017	(5,212)
Employee benefits	311,639	311,639	321,160	(9,521)
Materials, supplies, tools and chemicals	37,589	37,589	140,825	(103,236)
Depreciation	984,485	984,485	1,419,973	(435,488)
Salaries and wages	989,438	989,438	973,160	16,278
Office expense	41,575	41,575	99,173	(57,598)
Miscellaneous	42,589	42,589	24,506	18,083
Insurance	70,000	70,000	83,958	(13,958)
Maintenance and repairs	565,059	565,059	120,009	445,050
Professional fees	249,545	249,545	83,775	165,770
Travel and entertainment	5,000	5,000	3,593	1,407
Utilities	329,900	329,900	287,808	42,092
<i>Total operating expenses</i>	<u>3,630,624</u>	<u>3,630,624</u>	<u>3,566,957</u>	<u>63,667</u>
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>	<u>(1,109,374)</u>	<u>(1,109,374)</u>	<u>(743,780)</u>	<u>238,260</u>
<i>Non-operating revenues (expenses)</i>				
Grant revenue	-	-	5,182,455	5,182,455
Interest income	300	300	650	350
Rental income	-	-	15,827	15,827
Other income	180,353	180,353	92,034	(88,319)
Interest expense	(119,353)	(119,353)	(88,032)	31,321
<i>Total non-operating revenues (expenses)</i>	<u>61,300</u>	<u>61,300</u>	<u>5,202,934</u>	<u>5,141,634</u>
<i>Income (loss)</i>	<u>(1,048,074)</u>	<u>(1,048,074)</u>	<u>4,459,154</u>	<u>5,379,894</u>
<i>Change in net position</i>	<u>\$ (2,157,448)</u>	<u>\$ (2,157,448)</u>	<u>4,459,154</u>	<u>\$ 5,618,154</u>
<i>Net position - beginning</i>			<u>44,649,818</u>	
<i>Prior period restatement (Note 13)</i>			9,380,558	
<i>Net position - beginning, as restated</i>			<u>54,030,376</u>	
<i>Net position - ending</i>			<u>\$ 58,489,530</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, 2016

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value June 30, 2016</u>	<u>Name and Location of Safekeeper</u>
Citizens Bank of Las Cruces	FHLB	9/8/2017	313370SZ2	\$ 1,527,525	Federal Reserve Bank Boston, MA
Citizens Bank of Las Cruces	FHLB	12/9/2016	3133XHVS8	<u>510,564</u>	The Independent Bankers Bank, Dallas TX
Total Pledged Collateral				<u>\$ 2,038,089</u>	

See independent auditors' report.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Schedule of Deposit and Investment Accounts
June 30, 2016

Schedule III

<u>Account Name/Type</u>	<u>Deposits Citizens Bank of Las Cruces</u>	<u>Totals</u>
Deposits:		
Citizens Bank of Las Cruces		
Operating Account	\$ 162,756	\$ 162,756
Debt Service	277,893	277,893
Brazito Sewer	11,551	11,551
Money Market HIDTA	122	122
Berino/Mesquite Water Project	65,257	65,257
Reserve	380,445	380,445
Certificate of Deposit	11,504	11,504
Total Citizens Bank of Las Cruces	<u>909,528</u>	<u>909,528</u>
New Mexico Finance Authority - Reserve Account		
NMFA - LowerRio 2 - Reserve Account	<u>56,207</u>	<u>56,207</u>
Total deposits and investments	<u>965,735</u>	<u>965,735</u>
Reconciling items	(184,481)	(184,481)
Petty cash & returned/undeposited items	2,059	2,059
Unreconciled difference	<u>(14,691)</u>	<u>(14,691)</u>
Reconciled balance	<u>\$ 768,622</u>	<u>\$ 768,622</u>
Unrestricted cash:		
Cash and cash equivalents		\$ 262,366
Restricted cash:		
Customer Deposits		55,890
Construction Account		<u>382,655</u>
Total restricted cash		<u>438,545</u>
Unrestricted investments:		
Investments		<u>11,504</u>
Total unrestricted investments		<u>11,504</u>
Restricted investments:		
Restricted Investments NMFA-reserve account		<u>56,207</u>
Total restricted investments		<u>56,207</u>
Total cash and investments		<u>\$ 768,622</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, 2016

Prepared by: Lower Rio Grande Public Water Works Authority
 Title: Finance Manager
 Date: December 15, 2016

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract ?</i>	<i>\$ Amount of Awarded Contract</i>
3485	Lower Rio Grande Public Water Works Authority	Other Agencies	LRF-2016-01	Competitive (RFP or RFB)	Souder, Miller, & Associates	Winner	\$63,477.24
3485	Lower Rio Grande Public Water Works Authority	Other Agencies	LRF-2016-01	Competitive (RFP or RFB)	Ideals, Inc.	Loser	\$ -
3485	Lower Rio Grande Public Water Works Authority	Other Agencies	FY 2016-03	Competitive (RFP or RFB)	Bohannon Huston, Inc.	Winner	\$1,211,515.64
3485	Lower Rio Grande Public Water Works Authority	Other Agencies	FY 2016-03	Competitive (RFP or RFB)	Ideals, Inc.	Loser	\$ -

See independent auditors' report.

<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
\$63,477.00	Las Cruces, New Mexico	No	No	Valle Del Rio Design For Water System Improvements	
-	Las Cruces, New Mexico	No	No	Valle Del Rio Design For Water System Improvements	
\$1,211,516.00	Las Cruces, New Mexico	Yes	No	Water Treatment Project Design and Construction	
-	Las Cruces, New Mexico	Yes	No	Water Treatment Project Design and Construction	

See independent auditors' report.

COMPLIANCE SECTION

**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 Keller
New Mexico State Auditor
The Office of Management and Budget
To the Lower Rio Grande Public Water Works Authority Board of Directors
Lower Rio Grande Public Water Works Authority
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 comparison of Lower Rio Grande Public Water Works Authority (the Authority) as of and for the year ended June 30, 2016, 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 15, 2016.

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.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item FS 2016-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item FS 2016-002 to be significant deficiency.

Compliance and Other Matters

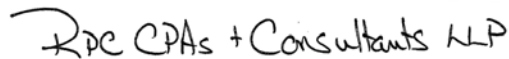
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were 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.



RPC CPAs + Consultants, LLP
Albuquerque, NM
December 15, 2016

FEDERAL FINANCIAL ASSISTANCE

**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
The Office of Management and Budget
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 the 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 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2016. 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 programs.

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Authority's major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the 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 its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

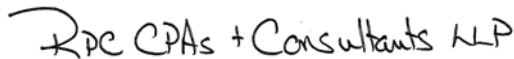
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as FA 2016-001 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
December 15, 2016

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

<u>Federal Grantor or Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Paid to Subrecipients</u>	<u>Noncash Assistance</u>
U.S. Department of Agriculture				
<i>Direct United States Department of Energy</i>				
Water and Waste Disposal System for Rural Communities	* 10.760	\$ 3,778,253	\$ -	\$ -
<i>Total U.S. Department of Agriculture</i>				
U.S. Environmental Protection Agency				
<i>Passed through New Mexico Finance Authority</i>				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	391,049	-	-
<i>Total U.S. Environmental Protection Agency</i>				
		<u>4,169,302</u>	<u>-</u>	<u>-</u>
<i>Total Federal Financial Assistance</i>		<u>\$ 4,169,302</u>	<u>\$ -</u>	<u>\$ -</u>

* Denotes Major Federal Financial Assistance Program

See independents 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, 2016

Schedule V

Notes to Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Lower Rio Grande Public Water Works Authority and is presented on the full accrual basis of accounting, which is the same basis as was used to prepare the government-wide financial statements. The information in this Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Loans

The Authority expended federal awards related to loans or loan guarantees during the year totaling \$103,400. The Authority's balance of loans outstanding at year end was \$4,118,804.

10% de minimus Indirect Cost Rate

The Authority did not elect to use the allowed 10% indirect cost rate.

Federally Funded Insurance

The Authority has no federally funded insurance.

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

Total federal awards expended per Schedule of Expenditures of Federal Awards (including \$3,987,400 capitalized)	\$ 4,169,302
Total expenditures funded by other sources	<u>3,358,055</u>
<i>Total expenditures (including capitalized expenditures)</i>	<u><u>\$ 7,527,357</u></u>

See independent auditors' report.

STATE OF NEW MEXICO
 Lower Rio Grande Public Water Works Authority
 Schedule of Findings and Questioned Costs
 June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors’ report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 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? | Yes |
| 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 2 CFR section 200.516(a)? | Yes |

4. Identification of major programs:

CFDA Number	Federal Program
10.760	Water and Waste Disposal Systems for Rural Communities

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

FS 2016-001 Financial Close and Reporting and Deficiencies in Internal Control Structure, Design, Operation, and Oversight and Year-End Accruals – Material Weakness

Condition: The internal control structure of the Authority should include controls that allow the governing body to exercise effective oversight of internal controls and the financial reporting process. During our audit, we noted the following deficiencies in the Authority's internal control structure and internal controls over year end accruals:

- Bank reconciliations are not performed in a timely manner and are not currently reviewed by someone independent of preparation of the reconciliation.
- There was an unreconciled difference in cash of \$14,691.
- We noted one item in the amount of \$32,938 that should not have been accrued. In addition, there were three items omitted from the listing totaling \$135,040 that should have been accrued as Accounts Payable at year end. This required a material adjustment to the Authority's trial balance.
- The Authority was not able to provide a detailed aging schedule of accounts receivable as of June 30, 2016.
- The Authority did not perform year-end adjustments to their accrued leave balances in the accounting system in the amount of \$27,352.

Criteria: AU-C Section 200 paragraph .05 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Also, as required by NMSA 1978 Section 6-6-3, the Authority should design and maintain an internal control structure that will keep all books, records and accounts in the form prescribed by the local government division. Under AU-C Section 200, the internal control and financial reporting process should have adequate oversight provided by the body charged with governance.

Effect: Because there is not an adequate internal control structure or oversight by the governing body, complete and accurate financial data cannot be verified, assets are not properly safeguarded, reconciliations are not performed, or at a minimum not performed on a timely basis, and adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: During fiscal year 2016, the Authority performed a conversion in accounting software, and there have been difficulties and delays as a result of the conversion that have created the conditions noted above regarding year end accruals.

Auditors' Recommendations: We recommend that the Authority perform a detailed review of the financial transactions subsequent to year end and identify those items that should be accrued at year end in order to account for revenues and expenditures in accordance with generally accepted accounting principles. The Authority should implement a review of bank reconciliations on a monthly basis. Bank reconciliations should be performed in a timely manner (usually by the end of the subsequent month) and reviewed by someone independent of the reconciliation process in order to ensure that discrepancies in the cash accounts are noted and researched to avoid any unreconciled differences.

Authority's Response: The Authority does not agree with all of the items listed in the finding above. We do review our bank statements monthly as well as monitor our accounts on-line daily. We went through a computer conversion during this fiscal year and it did not go smoothly. We have been working with Tyler Technologies Support Staff to resolve the issues. Documentation was provided to the auditors that most of the items were resolved after the end of the fiscal year and they were provided with the most current bank statement and reconciliation showing the corrections, as well as an itemized list of the transactions still in question. The accrual issues mentioned above relate to project accounts and those items are processed in a separate fund from the Operating Fund. They are recorded as Construction in Progress and Capitalized so they do not show up on a report that would identify them as an expense in need of an accrual at the end of the year. The Authority will implement the Auditors recommendations to use going forward.

Auditor's Rebuttal: RPC stands by the evidence obtained during our audit and reaches our conclusions based on sufficient, appropriate audit evidence. We communicated to management and the governing body that the items in the condition should have a corrective action plan to mitigate the risk of fraud or errors and also to safeguard the assets of Lower Rio Grande.

FS 2016-002 Design of Internal Controls Over IT – Significant Deficiency

Condition: During our process of understanding the Authority and its environment, we noted instances where elements of the Authority's internal control framework were deficient or need improvement. The Authority's monitoring element was not documented, sufficiently designed, or implemented as we noted the following:

- Within the Authority's accounting system, we noted that conflicting duties in multiple areas of the accounting software have not been set up properly to restrict access to only necessary employees.

Criteria: The COSO Internal Control Integrated Framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring. With these elements in place, the Authority can maximize its potential for safeguarding assets and reduce the risk of misstatements within its financial statements. Effective monitoring enhances the collective effectiveness of all five components of internal control. Unmonitored controls tend to deteriorate over time.

Effect: Without all of the five elements of the COSO Internal Control Integrated Framework present, the Authority is exposing itself to the risk of misappropriation of assets and needs to improve upon its processes in place to maximize the resources of the Authority to safeguard assets and prevent or detect misstatements.

Cause: After the Authority's system conversion in December, 2015, access levels within the Authority's software modules have not been set up to restrict access to only the necessary employees and access levels are not being monitored on a regular basis.

Auditors' Recommendation: We recommend that the Authority regularly monitor the access levels within each department.

Agency Response: The Authority does not agree with the finding above on IT Internal Controls. We purchased Tyler Incode V. X to improve our ability to safeguard the accounting system. Tyler Technologies has not completed their work on our system and therefore we may have some issues to be resolved. We have asked the Audit team to provide us with the specific circumstances that they are basing their findings on and their response was that it is a 150 page document and it will take some time to provide us with the specific circumstances. Another item noted by the auditors was the access level for the accounting assistant. The accounting assistant position did not even exist during that fiscal year. The position was filled in October of 2016 so I find it unreasonable to issue a finding on a time period they are not even auditing at the moment. Since the Auditors are unable to provide us with the specific circumstances in time to dispute the findings prior to finalizing the audit we stand in disagreement but we will investigate their claims and fix any issues they have noted.

The Authority will work with Tyler Technologies to remedy any issues we may have with our system set up and we will implement a program to monitor the access levels.

Auditor's Rebuttal: RPC stands by the evidence obtained during our audit and reaches our conclusions based on sufficient, appropriate audit evidence. We communicated to management and the governing body that the items in the condition should have a corrective action plan to mitigate the risk of fraud or errors and also to safeguard the assets of Lower Rio Grande.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Schedule of Findings and Questioned Costs
June 30, 2016

Schedule VI

Section III – Federal Award Findings

FA 2016-001 – Preparation of the Schedule of Federal Expenditures (SEFA) – Significant Deficiency

Federal Program Information:

Funding Agency: U.S. Department of Agriculture
Title: Water and Waste Disposal Systems for Rural Communities
CFDA: 10.760

Condition: The Authority failed to produce an accurate original SEFA, and in the review process of the SEFA, it was noted that expenditures for the Water and Waste Disposal System for Rural Communities were inaccurately reported on the SEFA in the amount of \$130,990, which were state expenditures, and another non-major program was not listed in the initial SEFA in the amount of \$391,049.

Criteria: 2 CFR part 215 requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Good internal controls require that management have procedures in place for identifying federal, state, and other awards, properly classifying expenditures in the correct programs and under the correct CFDA numbers, and ensuring that expenditures reported for federal programs are accurate.

Questioned Costs: None

Effect: Without proper grant awards and expenditures reported on the SEFA, it is impossible to properly assess programs in order to select grants and test in accordance with the Single Audit Act. Also, without proper processes and internal controls to properly track federal expenditures by grant, the risk of noncompliance and unallowable costs are heightened.

Cause: An accurate SEFA was not originally produced due to oversights by management resulting in a failure to accurately transfer information from the individual grants to the SEFA.

Auditors' Recommendation: The Authority should ensure that a comprehensive internal control structure is designed, documented, and implemented to ensure all grants transactions are properly tracked and all information is accurately documented on the SEFA.

Authority's Response: The Authority disagrees with the SEFA finding. The Auditors asked me to turn over the SEFA even after being told it was not complete so that they could begin their work. Our Audit was not started until November 28, 2016 and was due December 15th 2016 so in an effort to expedite their work I handed it over in its current state noting that it was not complete. I find this finding unfair due to the circumstances under which the information was turned over believing it would not count against me and I could provide them the correct information later when it was complete. The Auditors did not find any missing funds the only thing at issue here is a report that was not completed. The funds they reference as not being reported properly reported pass through a state agency and show up on our bank statement as being received from the state so it would be natural to post them to the State Grant Revenue account. It is noted on page 45 of the loan documents that the funds are primarily from USDA but the loan documents are not usually seen by the staff that is recording the transactions. We are provided with a Grant number and that number referenced a state agency. The funds are not unaccounted for the discrepancy is in who they technically come from and which list they should have been on. Had I waited to give them the SEFA when it was complete this would not have been an issue. It is also my understanding that the funds in question were awarded prior to the current SEFA rules and it is not mandatory until 2017. The Authority however will comply with the recommendations of the Auditors. The Tyler software has a Project Management Module that will allow us to better track this information and has a report that will provide the SEFA information.

Auditor's Rebuttal: RPC provided a needs list and began planning our audit in October. The late start was due to attempting to collaborate with management on the capital asset balances and performing an agreed upon procedures. RPC was successful in working with management in completing that project. In addition, the delays occurred because we received a 'revised' trial balance on Monday, December 12, 2016 along with 'revised' bank reconciliations. This increased our risk and resulted in requiring us to perform additional audit procedures and gather additional evidence to support the changes that was asserted to us by management. RPC worked diligently to ensure a timely audit submission for Lower Rio Grande.

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Schedule of Findings and Questioned Costs
June 30, 2016

Schedule VI

Section IV – Section 12-6-5 NMSA 1978 Findings

None Noted

Section V – Prior Year Audit Findings

FS 2015-001 Capital Asset – Material Weakness – Resolved

STATE OF NEW MEXICO
Lower Rio Grande Public Water Works Authority
Other Disclosures
June 30, 2016

OTHER DISCLOSURES

Exit Conference

An exit conference was held on December 15, 2016. In attendance were the following:

Representing Lower Rio Grande Public Water Works Authority:

John Holguin, Board Chairman
Martin Lopez, General Manager
Kathi Jackson, Finance Manager

Representing RPC CPAs + Consultants, LLP:

Robert Cordova, CPA, A&A Partner
Gwen Mansfield-Vogt, CPA, A&A Manager
Benjamin A. Martinez, CPA, A&A Supervisor

Auditor Prepared Financial Statements

RPC CPAs + Consultants, 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.