

**State of New Mexico**  
**Lower Rio Grande Public**  
**Water Works Authority**

*Basic Financial Statements and  
Required Supplementary Information  
For the Year Ended June 30, 2017  
and Independent Auditor's Report*

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

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JUNE 30, 2017**

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

**BOARD OF DIRECTORS**

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**BOARD OF DIRECTORS**

Mike McMullen  
Furman Smith  
Esperanza Holguin  
Raymundo Sanchez  
Jose Evaro  
Henry Magallanez

Chairman  
Vice-Chairman  
Secretary  
Director  
Director  
Director

**ADMINISTRATIVE OFFICIALS**

Martin Lopez  
Kathi Jackson

General Manager  
Finance Manager

# WATTS CPA, P.C.

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## **INDEPENDENT AUDITOR'S REPORT**

The New Mexico Office of the State Auditor  
Members of the Board of Directors  
Lower Rio Grande Public Water Works Authority  
Mesquite, New Mexico

### **Report on Financial Statements**

I 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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. I also have audited the budgetary comparison presented as supplementary information for the year ended June 30, 2017, 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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my 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, 2017, 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 my opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of Authority for the year ended June 30, 2017 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. My opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

My 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 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), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was 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 my opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued my report dated December 15, 2017 on my consideration of the Authority's internal control over financial reporting and on my 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 my 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.

Watts CPA, P.C.

El Paso, Texas  
December 15, 2017

**BASIC FINANCIAL STATEMENTS**

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

**STATEMENT OF NET POSITION  
JUNE 30, 2017**

**ASSETS:**

Current Assets

Cash and cash equivalents	\$ 295,767
Investments - Certificate of deposit	11,539
Accounts receivables	662,575
Grant receivables	108,755
Inventory	91,819
Prepaid expenses	6,672

Total current assets 1,177,127

Noncurrent assets

Restricted cash	
Customer deposits	86,433
Construction account	451,672
Loan reserve	44,303
Capital assets, net of accumulated depreciation	61,588,816

Total noncurrent assets 62,171,224

Total assets \$ 63,348,351

**LIABILITIES:**

Current Liabilities:

Accounts payable vendors	\$ 53,085
Gross receipts tax payable	11,150
Accrued payroll	39,720
Accrued interest expense	18,134
Customer meter deposits	86,433
Accrued compensated absences	73,654
Current maturities of notes payable	134,825

Total current liabilities 417,001

Noncurrent Liabilities:

Notes payable	5,401,619
Total liabilities	<u>5,818,620</u>

**NET POSITION:**

Net investment in capital assets	56,052,372
Restricted for debt service	44,303
Restricted for capital projects	451,672
Unrestricted	981,384
Total net position	<u>57,529,731</u>

Total liabilities and net position \$ 63,348,351

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2017**

Operating Revenues:	
Charges for services	\$ 3,282,246
Other revenues	69,598
	<hr/>
Total operating revenues	3,351,844
	<hr/>
Operating Expenses:	
Salaries and wages	2,705,919
Employee benefits	326,407
Materials, supplies, tools and chemicals	116,494
Office expenses	289,746
Miscellaneous	19,441
Bank charges	22,129
Insurance	64,215
Maintenance and repairs	158,264
Professional fees	71,168
Travel and entertainment	11,272
Depreciation	1,479,698
Utilities	231,882
	<hr/>
Total operating expenses	5,496,635
	<hr/>
Operating loss	(2,144,791)
	<hr/>
Non-Operating Revenues (Expenses):	
Grant revenue	1,881,591
Interest income	674
Rental income	18,093
Other income	66,079
Interest expense	(151,132)
	<hr/>
Total non-operating expenses	1,815,305
	<hr/>
Loss before capital contributions	(329,486)
	<hr/>
Capital Contributions:	
Grant revenues:	
State	1,211,948
Federal	473,466
	<hr/>
Total capital contributions	1,685,414
	<hr/>
Change in net position	1,355,928
	<hr/>
Net position - beginning of year, as previously reported	58,489,530
Restatement	(2,315,727)
	<hr/>
Net position - beginning of year, as restated	56,173,803
	<hr/>
Net position - end of year	\$ 57,529,731
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See accompanying notes to financial statements and independent auditor's report.

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017**

Cash Flows From Operating Activities:	
Cash received from customers	\$ 3,207,112
Cash payments to employees for services	(2,694,570)
Cash payments to vendors for goods and services	(1,726,720)
<b>Net cash used in operating activities</b>	<u>(1,214,178)</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase and construction of capital assets	(1,699,622)
Payments on notes payable	(291,125)
Payments for interest on notes payable	(151,132)
Proceeds from capital grants	1,576,659
<b>Net cash used in capital and related financing activities</b>	<u>(565,220)</u>
Cash Flows From Investing Activities	
Interest received	639
<b>Net cash provided by investing activities</b>	<u>639</u>
Cash Flows From Noncapital Financing Activities:	
Proceeds from noncapital grants	1,881,591
Miscellaneous income	84,172
<b>Net cash provided by noncapital financing activities</b>	<u>1,965,763</u>
<b>Net increase in cash and cash equivalents</b>	187,004
Cash and cash equivalents, beginning of year, as restated	<u>691,171</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 878,175</u>
CASH ENDING:	
Cash	\$ 295,767
Restricted cash	582,408
Total cash reported in statement of net position	<u>\$ 878,175</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (2,144,791)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,479,698
Change in:	
Accounts receivable	(104,916)
Inventory	(70,359)
Prepaid expenses and insurance	9,261
Accounts payable and accrued liabilities	(413,614)
Meter deposits	30,543
<b>Total adjustments</b>	<u>930,613</u>
<b>Net cash used in operating activities</b>	<u>\$ (1,214,178)</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

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**1. HISTORY AND ORGANIZATION**

The 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 in Dona Ana County, New Mexico. Sales revenues are generated primarily from water supply sales to domestic and commercial users.

The Authority has a Board of Directors that consists of seven (7) members who are responsible for legislative and fiscal control of the Authority. The Board is also responsible for administrative control of the Authority.

In September 2008, the Board of Directors of Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association, according to the Sanitary Project Act, Section 3-29-20-1, NMSA 1978, approved a plan of merger with (1) Berino Mutual Domestic Water Consumer and Mutual Sewage Works Association, (2) Desert Sands Mutual Domestic Water Consumer Association, (3) La Mesa Mutual Domestic Water Consumers Association, (4) Vado Mutual Domestic Water Consumers Association and (5) Lower Rio Grande Mutual Domestic Water Association all serving unincorporated communities within Dona Ana County, New Mexico.

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.

**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. 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.

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**

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. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**D. Cash and cash equivalents**

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.

**E. 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 \$451,672. The Authority also has restricted cash in the amount of \$86,433 that has been classified as restricted for customer deposits and \$44,303 restricted for debt service loan reserve.

**F. Accounts Receivable**

Accounts receivable represents the amounts due from customers' water and sewer accounts. The allowance for doubtful accounts was \$0 at year end. There was no change in the allowance for doubtful accounts during the fiscal year.

**G. Inventory**

Inventory consists of system parts and supplies valued at cost using the first in first out method of accounting. An actual inventory is taken on an annual basis.

**H. 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. 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.

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

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

**I. Operating Revenue 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.

**J. 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.

**K. 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.”

**L. 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.

**M. New Accounting Pronouncements**

During the year ended June 30, 2017, the Authority implemented the following new accounting pronouncements which did not have a material effect on the Authority's financial statements:

- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*
- *GASB Statement No. 77, Tax Abatement Disclosures*
- *GASB Statement No. 78, Pensions Provided Through Certain Multiple Employer Defined Benefit Plans*
- *GASB Statement No 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*
- *GASB Statement No. 81, Irrevocable Split-Interest Agreements*

- *GASB Statement 82, Pension Issues-an Amendment of GASB Statements no. 67, No. 68, and No. 73.*

The following pronouncements have been issued, but are not yet effective for the year ended June 30, 2017.

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*
- *GASB Statement No. 83, Certain Asset Retirement Obligations*
- *GASB Statement No. 84, Fiduciary Activities*
- *GASB Statement No. 85, Omnibus 2017*
- *GASB Statement No. 86, Certain Debt Extinguishment Issues*
- *GASB Statement No. 87, Leases*

The Authority is evaluating the effect that these statements will have in upcoming years.

### 3. CASH

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, 2017.

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 that is in excess of the federal deposit insurance amount.

As of June 30, 2017, \$758,730 of the Authority's bank balance of \$1,020,269 was exposed to

custodial credit risk. However, all of the \$758,730 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, 2017. Bank accounts were collateralized as follows:

Total deposits in bank	\$ 1,020,269
Less FDIC coverage	<u>(261,539)</u>
Uninsured public funds	758,730
Pledged Collateral held by the pledging bank's trust department or agent in the Authority's name	<u>2,275,643</u>
Uninsured and uncollateralized	<u>\$ -</u>

As of June 30, 2017, the Authority's bank balances were exposed to custodial credit risk. The amount above identified as uninsured of \$758,730 is subject to custodial credit risk. This is in 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 deposit policy for custodial credit risk.

The bank account balances were collateralized as shown in the following schedule:

Account	Account Type	Citizens Bank
Operating	Demand	\$ 261,747
Reserve	Demand	451,672
Debt Service	Demand	289,296
Brazito Sewer	Demand	5,885
NM HIDTA	Demand	130
Credit Card Security CD	Time	<u>11,539</u>
Total amounts of deposits		1,020,269
FDIC Coverage		<u>261,539</u>
Total uninsured public funds		758,730
Pledged collateral held by the pledging bank's trust department or agent in the Authority's name		<u>2,275,643</u>
Uninsured and uncollateralized		<u>\$ -</u>
50% pledged collateral requirement		\$ 379,365
Total pledged collateral		<u>2,275,643</u>
Pledged collateral exceeding the requirements		<u>\$ 1,896,278</u>

A description of the pledged collateral as of June 30, 2017 is as follows:

Description	CUSIP#	Maturity	Market Value
Citizen's Bank:			
FHLB	N/A	09/08/2017	\$ 1,503,417
FHLB	N/A	03/08/2024	<u>772,226</u>
Total Citizen's Bank			<u>\$ 2,275,643</u>

The bank account reconciliations as of June 30, 2017 are as follows:

Account	Account Type	Balance per Bank	Deposits in Transit	Outstanding Checks	Reconciled Balance
Operating	Demand	\$ 261,747	\$ 8,930	\$ 179,723	\$ 90,954
Reserve	Demand	451,672	-	-	451,672
Debt Service	Demand	289,296	-	-	289,296
Brazito Sewer Project	Demand	5,885	-	5,067	818
NM HIDTA	Demand	130	-	-	130
Credit Card Security CD	Time	<u>11,539</u>	<u>-</u>	<u>-</u>	<u>11,539</u>
Total amounts of deposits		<u>\$ 1,020,269</u>	<u>\$ 8,930</u>	<u>\$ 184,790</u>	844,409
Cash held by NMFA - Loan reserve					44,303
Petty cash & returned items					<u>1,002</u>
Total cash					<u>\$ 889,714</u>
Total as Reported in the Financial Statements:					
Statement of Net Position:					
Cash and cash equivalent					\$ 295,767
Investments - Certificate of deposit					11,539
Restricted cash					<u>582,408</u>
Total cash per financial statements					<u>\$ 889,714</u>

#### 4. 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 \$662,575.

## 5. CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2017. Land, water rights, and construction in progress are not subject to depreciation.

	Beginning Balance	Adjustment/ Transfers	Increases	Decreases	Ending Balance
Business-type capital assets, not being depreciated					
Land, well sites, and easements	\$ 759,161	\$ (22,285)	\$ -	\$ -	\$ 736,876
Water rights	17,352,151	1,101	-	-	17,353,252
Construction in progress	<u>15,346,808</u>	<u>(3,314,480)</u>	<u>1,590,559</u>	<u>(10,617,230)</u>	<u>3,005,657</u>
<b>Total capital assets, not being depreciated</b>	<u>33,458,120</u>	<u>(3,335,664)</u>	<u>1,590,559</u>	<u>(10,617,230)</u>	<u>21,095,785</u>
Business-type capital assets, being depreciated					
Buildings and improvements	2,162,196	109,321	-	-	2,271,517
Land improvements	111,768	217,400	-	-	329,168
Water and sewer plant/system	39,847,441	(162,947)	10,707,123	-	50,391,617
Furniture, fixtures, and equipment	439,366	42,058	14,085	-	495,509
Transportation equipment	<u>1,215,817</u>	<u>(204,755)</u>	<u>5,085</u>	<u>-</u>	<u>1,016,147</u>
<b>Total business-type capital assets, being depreciated</b>	<u>43,776,588</u>	<u>1,077</u>	<u>10,726,293</u>	<u>-</u>	<u>54,503,958</u>
Less accumulated depreciation for:					
Buildings and improvements	511,320	34,825	57,742	-	603,887
Land improvements	82,739	35,372	9,388	-	127,499
Water and sewer plant/system	11,867,923	(818,058)	1,352,910	-	12,402,775
Furniture, fixtures, and equipment	348,674	(189,381)	2,763	-	162,056
Transportation equipment	<u>805,380</u>	<u>(147,565)</u>	<u>56,895</u>	<u>-</u>	<u>714,710</u>
<b>Total accumulated depreciation</b>	<u>13,616,036</u>	<u>(1,084,807)</u>	<u>1,479,698</u>	<u>-</u>	<u>14,010,927</u>
<b>Total capital assets being depreciated, net</b>	<u>30,160,552</u>	<u>1,085,884</u>	<u>9,246,595</u>	<u>-</u>	<u>40,493,031</u>
<b>Business-type capital assets, net</b>	<u>\$63,618,672</u>	<u>\$ (2,249,780)</u>	<u>\$10,837,154</u>	<u>\$ (10,617,230)</u>	<u>\$61,588,816</u>

Depreciation expense for the year ended June 30, 2017 totaled \$1,479,698

## 6. LONG TERM OBLIGATIONS

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
New Mexico Finance Authority Loans (NMFA)	\$ 1,708,765	\$ -	\$ 67,625	\$ 1,641,140	\$ 70,591
United States Department of Agriculture Loans (USDA)	<u>4,118,804</u>	<u>-</u>	<u>223,500</u>	<u>3,895,304</u>	<u>64,234</u>
Total notes payable	<u>\$ 5,827,569</u>	<u>\$ -</u>	<u>\$ 291,125</u>	<u>\$ 5,536,444</u>	<u>\$ 134,825</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, the Authority 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.

\$ 679,364

NMFA LowerRio 3: On January 20, 2012 the Authority 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.

329,910

NMFA LowerRio 4: On June 15, 2012, the Authority 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.

129,175

<p>NMFA LowerRio 5: On December 21, 2012, the Authority 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.</p>	57,855
<p>NMFA LowerRio 6: On March 1, 2013, the Authority 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.</p>	133,617
<p>NMFA Brazito: On May 7, 2013, the Authority 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.</p>	46,518
<p>NMFA LowerRio 10: On February 1, 2015, the Authority 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.</p>	91,036
<p>NMFA LowerRio 11: On February 1, 2015, the Authority 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.</p>	47,569
<p>NMFA LowerRio 13: On February 26, 2016, the Authority 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.</p>	126,096

USDA Loans: The Authority has entered into eight 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, the Authority 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.	\$ 2,170,883
USDA 91-04: On August 20, 2012, the Authority 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.	435,739
USDA 92-13 and 92-19: On April 26, 2012, the Authority 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.	644,289
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.	93,742
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.	197,090
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.	158,410
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.	195,151
Total debt	<u>5,536,444</u>
Less current portion of long-term debt	<u>134,825</u>
Total long-term debt	<u>\$ 5,401,619</u>

Following is a summary of principal and interest maturities of long-term liabilities:

<b>Years Ending</b>	<b>Interest</b>	<b>Principal</b>
June 30, 2018	\$ 158,916	\$ 134,825
June 30, 2019	156,240	137,403
June 30, 2020	153,443	266,195
June 30, 2021	150,518	142,921
June 30, 2022	147,463	145,867
June 30, 2023 - 2027	686,553	778,305
June 30, 2028 - 2032	586,969	873,479
June 30, 2033 - 2037	463,948	769,980
June 30, 2038 - 2042	350,734	775,447
June 30, 2043 - 2047	187,298	674,367
June 30, 2048 - 2052	76,938	750,957
June 30, 2043 - 2058	1,895	86,698
<b>Total</b>	<b>\$ 3,120,915</b>	<b>\$ 5,536,444</b>

#### 7. 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, 2017 employees had balances of 1,253 sick leave hours with a value of \$20,641 and 3,422 vacation hours with a value of \$53,013. Upon termination, all accumulated vacation and 1 hour for every 3 accumulated hours for sick leave will be paid to the employee.

Following is a schedule of changes in compensated absences:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reduction</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated absences	<u>\$ 73,654</u>	<u>\$ 82,445</u>	<u>\$ 82,445</u>	<u>\$ 73,654</u>	<u>\$ 73,654</u>

#### 8. RISK MANAGEMENT

The Authority covers its risk of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees and natural disasters through various insurance policy coverage. The coverage includes workers compensation, general and professional liability, property, and fidelity bonds coverage. The Authority transfers these risks of loss to the insurance carrier except for deductible amounts. Premiums paid on policies for the year June 30, 2017 was \$85,283.

#### 9. JOINT POWERS AGREEMENT

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.

**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, 2017, the Authority contributed \$77,797.

**11. SUBSEQUENT REVIEW**

Lower Rio Grande Public Water Works Authority has evaluated subsequent events through December 15, 2017, which is the date the financial statements were available to be issued.

**12. RESTATEMENT**

During the year ended June 30, 2017, the Authority has restated net position in the amount of \$2,315,727. Of that restatement, capital assets were overstated by \$3,334,587, accumulated depreciation was overstated by \$1,084,807 and cash was understated by \$65,947.

**SUPPLEMENTARY INFORMATION**

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

**STATEMENT OF RECEIPTS AND DISBURSEMENTS  
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL (BUDGET BASIS)  
FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
<b>RECEIPTS:</b>				
Operating revenues:				
Charges for services	\$ 2,579,398	\$ 2,579,398	\$ 3,282,246	\$ 702,848
Other revenues	233,750	233,750	69,598	(164,152)
Non-operating revenues				
Other revenue	-	-	84,172	174
Interest income	500	500	674	174
Grants and loans	-	-	3,567,005	3,567,005
<b>Total receipts</b>	<b>2,813,648</b>	<b>2,813,648</b>	<b>7,003,695</b>	<b>4,190,047</b>
<b>DISBURSEMENTS:</b>				
Operating expenses:				
Accounting & administration	190,000	190,000	156,765	33,235
Salaries & benefits	1,386,000	1,386,000	1,325,440	60,560
Sewer system	59,000	59,000	49,498	9,502
Materials & supplies	515,398	515,398	381,667	133,731
Utilities	335,500	335,500	273,057	62,443
Taxes & insurance	85,250	85,250	78,849	6,401
Non-operating disbursements				
Debt payments - principal	121,000	121,000	291,125	(170,125)
Debt payments - interest	121,500	121,500	151,132	(29,632)
<b>Total disbursements</b>	<b>2,813,648</b>	<b>2,813,648</b>	<b>2,707,533</b>	<b>106,115</b>
Excess receipts over (under) disbursements	-	-	4,296,162	4,296,162
Beginning unrestricted cash			262,367	
<b>Ending unrestricted cash</b>			<b>\$ 4,558,529</b>	
Reconciliation of budgetary basis to GAAP basis:				
Net excess receipts over (under) disbursements budgetary basis			\$ 4,296,162	
Depreciation			(1,479,698)	
HIDTA program			(1,751,661)	
Principal payments on debt			291,125	
Change in net position GAAP basis			<b>\$ 1,355,928</b>	

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

**COMPLIANCE SECTION**

# WATTS CPA, P.C.

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## **INDEPENDENT AUDITOR'S 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***

The New Mexico Office of the State Auditor  
Members of the Board of Directors  
Lower Rio Grande Public Water Works Authority  
Mesquite, New Mexico

I 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 of the Lower Rio Grande Public Water Works Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and the related budget comparisons of the Authority, presented as supplemental information, and have issued my report thereon dated December 15, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing my audit, of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of

my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wells CPA, P.C.

El Paso, Texas  
December 15, 2017

# WATTS CPA, P.C.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The New Mexico Office of the State Auditor  
Members of the Board of Directors  
Lower Rio Grande Public Water Works Authority  
Mesquite, New Mexico

### **Report on Compliance for Each Major Federal Program**

I have audited the 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 each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility.***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Authority's compliance.

#### ***Opinion on Each Major Federal Program***

In my opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **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 my audit of compliance, I considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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, I 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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Watts CPA, P.C.

El Paso, Texas  
December 15, 2017

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

<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>
<b>U.S. Department of Agriculture</b>				
Direct United States Department of Energy Water and Waste Disposal System for Rural Communities	10.760	\$ 41,417	\$ -	\$ -
Total U.S. Department of Agriculture		<u>41,417</u>	<u>-</u>	<u>-</u>
<b>U.S. Environmental Protection Agency</b>				
Passed through New Mexico Finance Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	266,055	-	-
Total U.S Environmental Protection Agency		<u>266,055</u>	<u>-</u>	<u>-</u>
<b>Executive Office of the President</b>				
Direct Executive Office of the President High Intensity Drug Trafficking Areas (HIDTA) Program *	95.001	1,751,661	-	-
Total Executive Office of the President		<u>1,751,661</u>	<u>-</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 2,059,133</u>	<u>\$ -</u>	<u>\$ -</u>

\* Denotes Major Federal Financial Assistance Program

See independent auditor's report and 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, 2017**

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**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).

**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.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

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**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? No
  - b. Significant deficiencies identified not considered to be material weaknesses? No
  - 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? No
- 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)? No
- 4. Identification of major programs:

CFDA Number	Federal Program
95.001	High Intensity Drug Trafficking Areas (HIDTA) Program

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

STATE OF NEW MEXICO  
LOWER RIO GRANDE PUBLIC WATER WORKS AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017

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CURRENT YEAR FINDINGS:

None

STATUS OF PRIOR YEAR FINDINGS:

<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>
<b><u>Financial Statement Findings</u></b>	
FS 2016-001 Financial Close and Reporting and Deficiencies in Internal Control Structure, Design, Operation, and Oversight and Year-End Accruals – Material Weakness	Resolved
FS 2016-002 Design of Internal Controls Over IT – Significant Deficiency	Resolved
<b><u>Federal Award Findings</u></b>	
FA 2016-001 Preparation of the Schedule of Federal Expenditures (SEFA) – Significant Deficiency	Resolved

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

**EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2017**

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An exit conference was conducted on December 15, 2017 with the following individuals in attendance:

**Lower Rio Grande Public Water Works Authority**

Mike McMullen  
Martin Lopez  
Kathi Jackson

Board Chairman  
General Manager  
Finance Manager

**Watts CPA, P.C.**

Brad Watts

Shareholder

**Financial Statement Preparation**

The financial statements were prepared by Watts CPA, P.C. from the books and records of the Lower Rio Grande Public Water Works Authority. However, the contents of these financial statements remain the responsibility of the Authority's management.