

# New Mexico Environment Department Clean Water State Revolving Fund



Clean Water  
State Revolving Fund

Annual Financial Statements and Schedules  
With Independent Auditor's Report

For the Fiscal Year Ended  
June 30, 2018



**CLEAN WATER STATE REVOLVING FUND  
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YEAR ENDED JUNE 30, 2018**

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**CLEAN WATER STATE REVOLVING FUND  
OFFICIAL ROSTER  
YEAR ENDED JUNE 30, 2018**

**Office of the Secretary**

Butch Tongate, Cabinet Secretary

Juan Carlos Borrego, Deputy Secretary

**Division Directors**

Juan Carlos Borrego, Acting ASD Director (June)

Mary Montoya, Information Technology Division

Juan Carlos Borrego, Acting Resource Protection Director

Bruce Yurdin, Water Protection Division

Juan Carlos Borrego, Acting Environmental Protection Director



**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**INDEPENDENT AUDITOR'S REPORT**

Mr. Butch Tongate, Cabinet Secretary  
Clean Water State Revolving Fund of the  
New Mexico Environment Department

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Clean Water State Revolving Fund (the Fund) of the New Mexico Environment Department (the Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents. We also have audited the combining statement of net position by functional activities, the combining statement of revenue, expenses, and changes in fund net position by functional activities, and the combining statements of cash flows of the Fund, presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2018.

***Management's Responsibility for the Financial Statements***

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

***Auditor's 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Mr. Butch Tongate, Cabinet Secretary  
Clean Water State Revolving Fund of the  
New Mexico Environment Department

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Fund of the Department as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each combining statement of revenue, expenses, and changes in net position by functional activities, and each combining statement of cash flows of the Fund as of and for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and changes in financial position of only that portion of the business-type activities of the State of New Mexico that is attributable to the transactions of the Fund. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2018, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mr. Butch Tongate, Cabinet Secretary  
Clean Water State Revolving Fund of the  
New Mexico Environment Department

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. 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 Award*, and is also 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 relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of the Fund'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 result of that testing, and not to provide an opinion on 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 Fund's internal control over financial reporting and compliance.

*Office of the State Auditor*

Office of the State Auditor  
Santa Fe, New Mexico  
October 30, 2018

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

The New Mexico Environment Department (NMED), Construction Programs Bureau (CPB) offers readers this discussion and analysis for the Clean Water State Revolving Fund (CWSRF) financial position and financial activities for the fiscal year that ended June 30, 2018. The CWSRF is also known as the Wastewater Facility Construction Loan Fund. This analysis is intended to serve as an introduction to the CWSRF basic financial statements and to provide an analytical overview of the fund's operations. CPB encourages readers to consider the information presented here in conjunction with additional information that was furnished in the CWSRF's annual report. The CPB recognizes Governmental Accounting Standards Board Statement 34. This statement establishes financial reporting requirements for state and local governments throughout the United States. This report is designed to provide New Mexico's legislators, citizens, taxpayers, customers, and federal government officials, with a general overview of the Fund's finances and the accounting of the monies it receives.

**Financial Highlights**

- As of the close of State Fiscal Year (SFY) 2018, the CWSRF reports a total net position of \$322,054,525, an increase of \$10,531,764 for CWSRF Fund 12100 and CWSRF Admin Fund 32700 combined. This 3.3% annual growth represents a healthy fund.
- The CWSRF was awarded one capitalization grant for the Federal Fiscal Year (FFY) 2017 in the amount of \$6,474,000.
- The CWSRF collected \$12,166,020 in loan repayment principal, \$1,824,557 in loan repayment interest, and \$796,295 in administrative loan fees. Total principal, interest and administrative fees received were \$14,786,872
- The CWSRF fund earned \$1,289,971 of interest income on overnight funds deposited at the State Treasurer's Office for Fund 12100 and Fund 32700 combined.
- Fund 12100 disbursed \$23,442,906 for construction projects in SFY 2018.
- Fund 12100 incurred administrative expenses of \$527,833; Fund 32700 incurred administrative expenses of \$137,916.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**Condensed Financial Information**

|   | <u>2018</u>           | 2017           | 2016           |
|---|-----------------------|----------------|----------------|
| <b>NET POSITION</b>                       |                       |                |                |
| <b>ASSETS</b>                             |                       |                |                |
| Current Assets                            | \$ 160,961,146        | \$ 159,870,859 | \$ 145,089,379 |
| Non-Current Assets                        | <u>162,163,383</u>    | 151,621,906    | 157,003,075    |
| <b>TOTAL ASSETS</b>                       | <b>\$ 323,124,529</b> | \$ 311,492,765 | \$ 302,092,454 |
| <b>LIABILITIES</b>                        |                       |                |                |
| Current Liabilities                       | \$ 1,100,004          | \$ 4           | \$ 32,142      |
| <b>NET POSITION</b>                       |                       |                |                |
| Restricted                                | <u>322,024,525</u>    | 311,492,761    | 302,060,312    |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 323,124,529</b> | \$ 311,492,765 | \$ 302,092,454 |
| <br>                                      |                       |                |                |
| <b>CHANGES IN NET POSITION</b>            |                       |                |                |
| Program Revenues:                         |                       |                |                |
| Interest on Loans                         | \$ 2,389,849          | \$ 2,501,432   | \$ 3,044,704   |
| Interest on Investments                   | 1,289,971             | 807,503        | 286,838        |
| Debt Service Fees                         | 854,421               | 501,761        | 332,420        |
| Other Revenue                             | -                     | 1,251          | -              |
| General Revenues:                         |                       |                |                |
| Federal Award Programs                    | 6,474,000             | 6,525,000      | 6,910,609      |
| Grants to Other Organizations             | (1,110,728)           | (1,762,418)    | (1,899,948)    |
| State Appropriations                      | 1,300,000             | 1,400,000      | 1,300,000      |
| Transfers (06400) Admin Expenses          | (665,749)             | (542,080)      | (265,102)      |
| Total Revenues                            | <u>10,531,764</u>     | 9,432,449      | 9,709,521      |
| Program Expenses:                         |                       |                |                |
| Administrative Expenses                   | <u>-</u>              | -              | (366,289)      |
| <b>CHANGE IN NET POSITION</b>             | <b>10,531,764</b>     | 9,432,449      | 9,343,232      |
| Net Position - Beginning of Year          | <u>311,492,761</u>    | 302,060,312    | 292,717,080    |
| <b>NET POSITION - END OF YEAR</b>         | <b>\$ 322,024,525</b> | \$ 311,492,761 | \$ 302,060,312 |



**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the NMED's Fund 12100, Wastewater Facility Construction Loan Fund and Fund 32700, Clean Water Administrative Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

With Fund 12100 representing more than 99.1% of the collective total of both funds, the discussion and analysis will focus on this enterprise fund. The notes to the financial statements address both funds.

The statement of net position presents information on the fund's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the fund is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents information showing how the fund's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This may reflect revenues earned and expenses incurred that result in cash flows in future fiscal periods such as overnight interest earned in the month of June but not received.

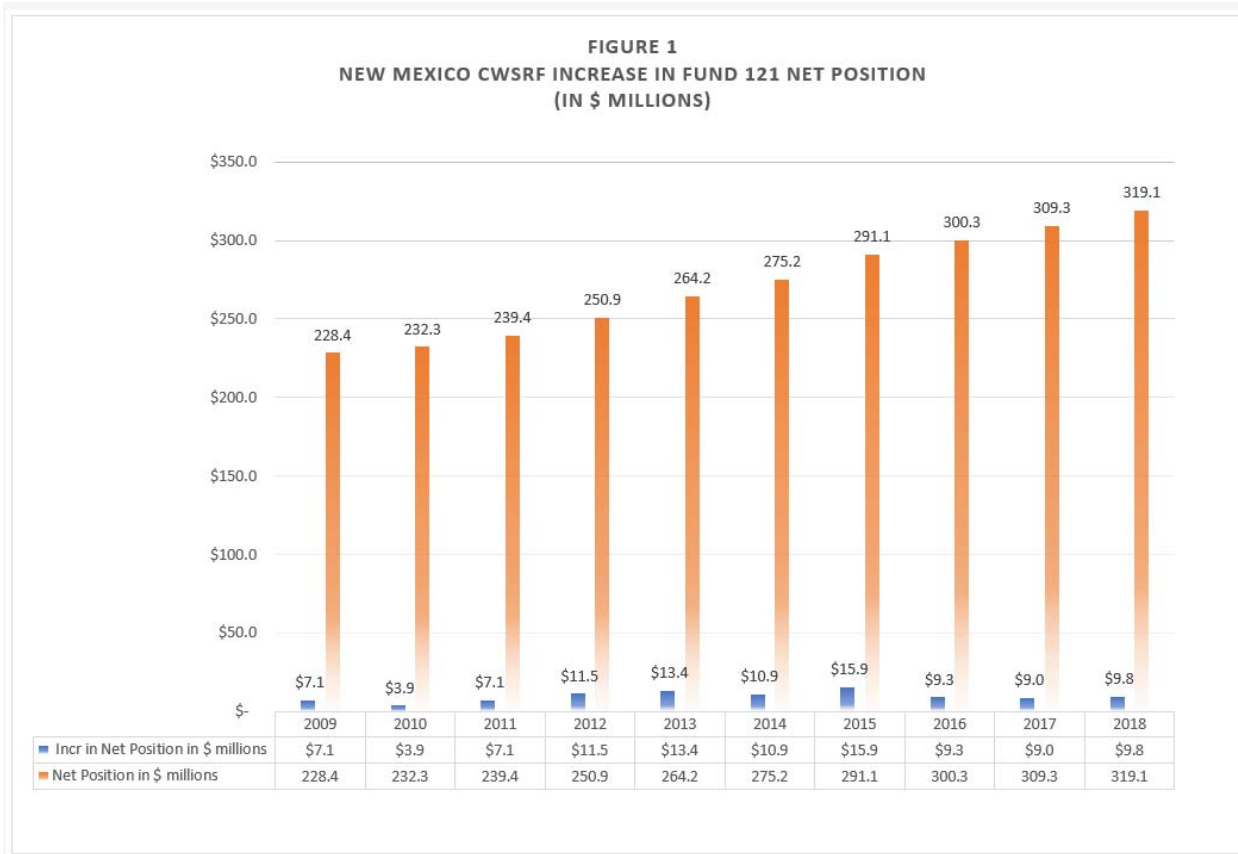
The statement of cash flows presents information that demonstrates how changes in balance sheet accounts and income affect cash and cash equivalents. The activity reflected from this statement is only recorded when cash was received or disbursed. Reconciliation is provided at the bottom of this statement to tie the operating income with the net cash provided by operating activities.

**Analysis of Financial Position and Results in Operation (Excludes Fund 32700)**

The Fund 12100 Statement of Net Position demonstrates that the fund grew by \$10.2 million during SFY 2018 and has shown consistent growth over the years. This chart represents both the cumulative growth of the fund balance, as well as each year's respective increases. The amounts are represented in millions of dollars.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 JUNE 30, 2018**

**Analysis of Net Position:**



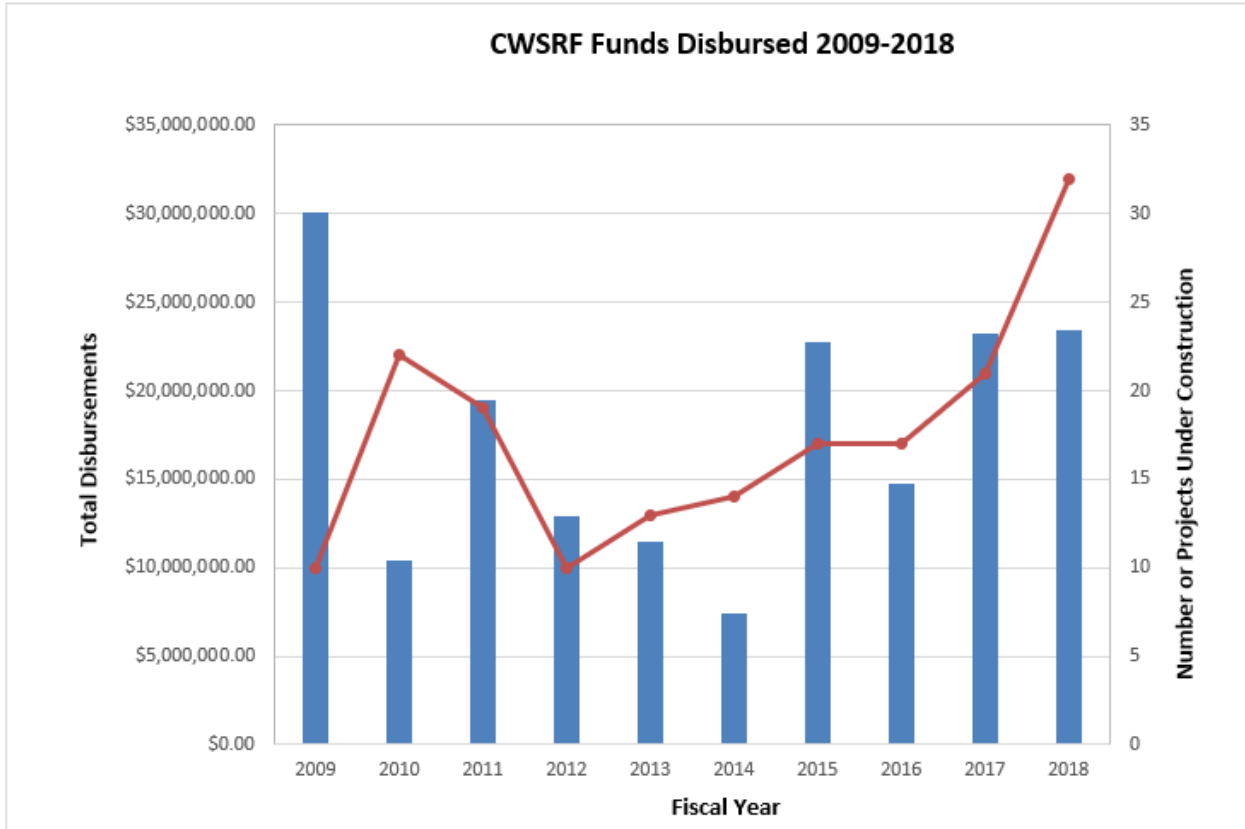
The growth of the Fund is attributable to multiple factors which include:

- ❖ Consistent federal funding in the form of annual federal grants;
- ❖ Consistent funding from the State in the form of State Match;
- ❖ A positive return on investment from the State Treasurer’s investment;
- ❖ A strong return on investment from the borrower’s loans;
- ❖ An absence of defaults and delinquent borrowers;
- ❖ Relatively low administrative expenses.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 JUNE 30, 2018**

**Performance:**

As of the end of SFY 2018, the NM CWSRF has fully expended the FFY 2017 federal allotment. NM CWSRF had 32 projects in progress at the end of SFY 2018. The Fund disbursed \$23,442,906 to projects during SFY 2018.



**Projections:**

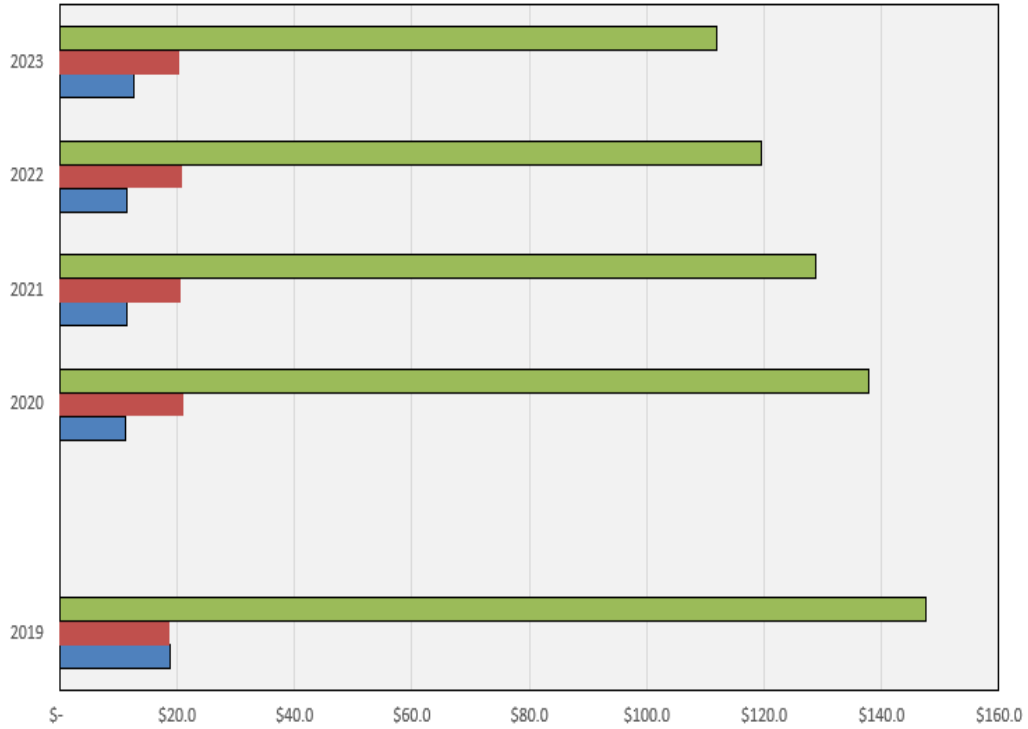
A cash flow model is used as a management tool for the NM CWSRF and to facilitate management of the fund in perpetuity.

The five-year model and the twenty-year model demonstrate that from 2019 to 2043, the NM CWSRF has funding not only to support projected projects, but to increase funding where possible through enhanced outreach, CWSRF expanded eligibilities or other funding opportunities. The projected cash flow allows the CWSRF to continue to effectively execute loans for environmentally important construction projects needed in New Mexico.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 JUNE 30, 2018**

**Five Year Cash Flow Projections:**

**New Mexico CWSRF Cash Flow Projection (in \$ millions)  
 Five Year Chart Projected as of 2019**

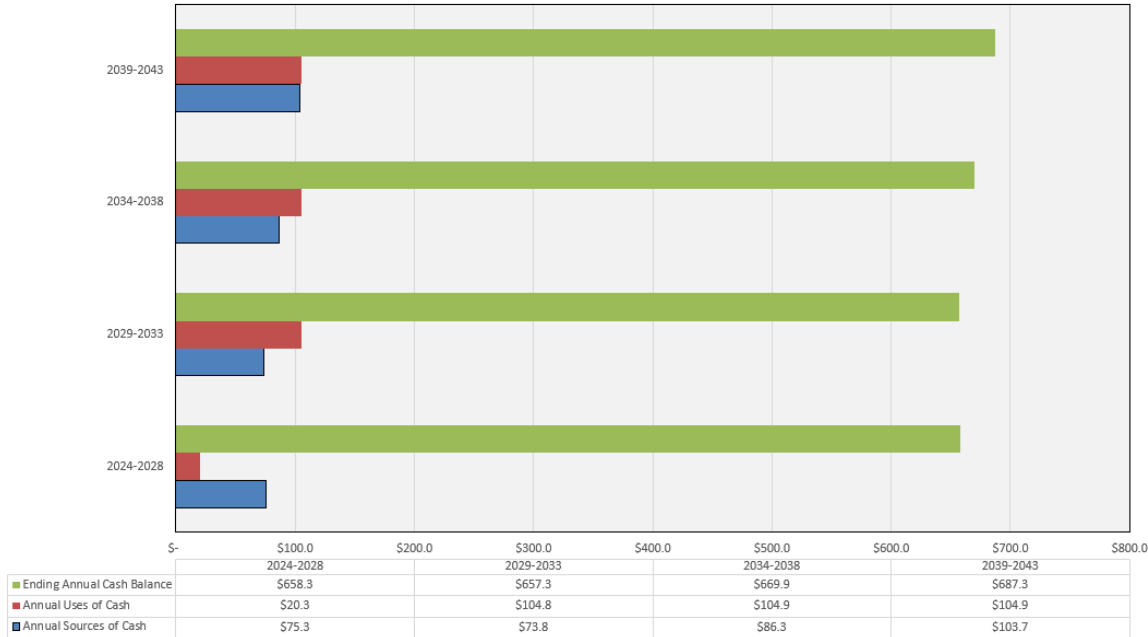


|                            | 2019    | 2020    | 2021    | 2022    | 2023    |
|----------------------------|---------|---------|---------|---------|---------|
| Ending Annual Cash Balance | \$147.6 | \$137.9 | \$128.8 | \$119.4 | \$111.9 |
| Annual Uses of Cash        | \$18.7  | \$21.0  | \$20.5  | \$20.8  | \$20.3  |
| Annual Sources of Cash     | \$18.9  | \$11.2  | \$11.4  | \$11.5  | \$12.8  |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 JUNE 30, 2018**

**Twenty Year Cash Flow Projections:**

New Mexico CWSRF Cash Flow Projection (in \$ millions)  
 Twenty Year Chart 2024-2043



**Factors Affecting Fund Resources for Future Use**

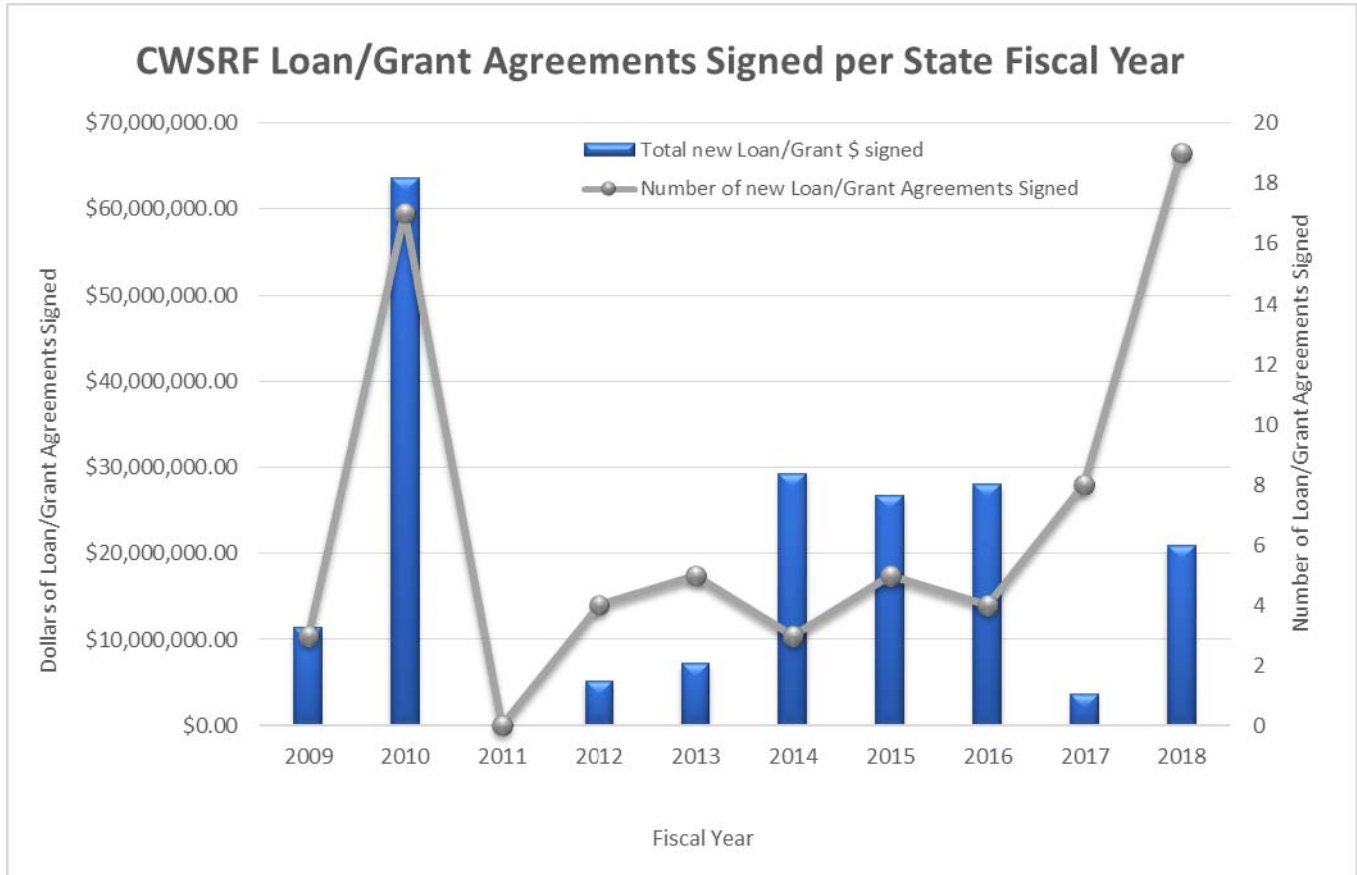
Through state funding, the CWSRF Program (Program) competes with and complements the Special Appropriation Program (SAP) and the Rural Infrastructure Program (RIP). The SAP provides communities with 100% grant funding via legislative Capital Outlay appropriations. SAP wastewater funding executed for 2018 totaled \$2,064,355. The RIP program provides loan and grant funding to rural communities. This program has an open application cycle and quick loan execution, but has population restrictions and a maximum loan amount of two million dollars per year. This program funded \$707,560 in wastewater projects in SFY 2018. Two projects funded through RIP were co-funded with the CWSRF, providing maximum assistance to the communities. Working with SAP and RIP provides opportunities to augment CWSRF funding to communities in need.

Through federal funding, the Program can provide communities with up to 30% of the federal grant awarded to NMED as additional subsidization. The FFY 2017 allotment also mandated an additional 10% of the award for use as additional subsidization. The Program provided total additional subsidization of \$2,784,571 in SFY 2018. Additional subsidization, combined with low interest rates, allows the Program to provide funding packages for projects that may otherwise be too expensive for the rural and economically challenged communities of New Mexico.

Interest earned on the Program’s fund balance was up significantly in SFY 2018 over SFY 2017. Interest received in SFY2018 on Fund 12100 was \$1,272,545 as opposed to \$798,175 in SFY2017; interest received on Fund 32700 was \$17,426 as opposed to \$ 9,328

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 JUNE 30, 2018**

The NM CWSRF signed 19 new loan/grant agreements in SFY 2018 totaling \$20,920,799 and amended 1 existing agreement increasing the subsidy amount by \$260,000 for a total of \$21,180,799. The CWSRF New Loan/Grant Agreement chart shows the amount and number of agreements signed over the last 10 years.



**Factors Impacting Future Performance**

CPB amended state statute 74-A to expand the type of projects and borrowers eligible for CWSRF funding. This change allows the program to fully encompass what is allowed in the Clean Water Act. CPB also amended the statute as it pertains to zero-percent interest loans. Previously, communities with a median household income less than three quarters of the statewide average and a monthly user rate of \$ 15.00 or greater were eligible for zero interest loans; now communities with a per capita income less than three quarters of the statewide average and a monthly user fee greater than 1.82% of the monthly per capita income are eligible for a zero-percent interest loan.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**Requests for Information**

This financial report is designed to provide a general overview of the CWSRF Program's finances. Additional information regarding this report or the CWSRF Program can be obtained by calling 505-847-2806, emailing [NMENV-cpinfo@state.nm.us](mailto:NMENV-cpinfo@state.nm.us) or by writing CWSRF, NMED, Runnels Building Suite S2072, P.O. Box 5469, Santa Fe, NM 87502.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

|  | <b>2018</b>           |
|--|-----------------------|
| <b>ASSETS</b>                              |                       |
| <b>CURRENT ASSETS</b>                      |                       |
| Investments in State General Fund          |                       |
| Investment Pool                            | \$ 150,177,441        |
| Receivables:                               |                       |
| Interest on Loans                          | 1,586,883             |
| Loan Receivables:                          |                       |
| Current Portion of Completed Projects      |                       |
| Net of Origination Fees                    | 8,951,518             |
| Administrative Fee Receivable              | 245,304               |
| <b>Total Current Assets</b>                | <b>160,961,146</b>    |
| <br><b>LONG-TERM ASSETS</b>                |                       |
| Loan Receivables:                          |                       |
| Noncurrent Portion of Projects in Progress | 33,381,483            |
| Noncurrent Portion of Completed Projects,  |                       |
| Net of Origination Fees                    | 128,781,900           |
| <b>Total Noncurrent Assets</b>             | <b>162,163,383</b>    |
| <b>Total Assets</b>                        | <b>\$ 323,124,529</b> |
| <br><b>CURRENT LIABILITIES</b>             |                       |
| Accounts Payable                           | 4                     |
| Unearned Revenues                          | 1,100,000             |
| <b>Total Liabilities</b>                   | <b>1,100,004</b>      |
| <br><b>NET POSITION</b>                    |                       |
| Restricted                                 | 322,024,525           |
| <b>Total Liabilities and Net Position</b>  | <b>\$ 323,124,529</b> |



**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2018**

|  | <b>2018</b>           |
|--|-----------------------|
| <b>REVENUES</b>                              |                       |
| Interest on Loans                            | \$ 2,389,849          |
| Interest on Investments                      | 1,289,971             |
| Debt Service Fees                            | 854,421               |
| Other Revenue                                | -                     |
| <b>Total Revenues</b>                        | <b>4,534,241</b>      |
| <br><b>EXPENSES</b>                          |                       |
| Administrative Expenses                      | -                     |
| <b>Total Expenses</b>                        | -                     |
| <br><b>OPERATING INCOME</b>                  | <b>4,534,241</b>      |
| <br><b>NON-OPERATING REVENUES (EXPENSES)</b> |                       |
| Federal Award Programs                       | 6,474,000             |
| Grants to Other Organizations                | (1,110,728)           |
| State Appropriations                         | 1,300,000             |
| Transfers (06400) Admin Expenses             | (665,749)             |
| <b>Total Nonoperating Revenues</b>           | <b>5,997,523</b>      |
| <br><b>CHANGE IN NET POSITION</b>            | <b>10,531,764</b>     |
| Total Net Position - Beginning               | <b>311,492,761</b>    |
| <br><b>TOTAL NET POSITION - ENDING</b>       | <b>\$ 322,024,525</b> |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
STATEMENT OF CASH FLOWS  
YEARS ENDED JUNE 30, 2018**

|  | <b>2018</b>                  |
|--|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                              |
| Cash Received on Repayment of Loan Principal   | \$ 12,166,020                |
| Cash Received on Interest from Loans   | 1,824,557                    |
| Interest Payments Received from State Treasurer's Office   | 1,289,971                    |
| Cash Received for Debt Service Fees  | 796,296                      |
| Cash (Paid) Received for Other   | -                            |
| Cash Payments Made for Administrative Expenses   | -                            |
| Cash Payments Made to Borrowers  | <u>(22,330,309)</u>          |
| <b>Net Cash Provided (Used) by Operating Activities</b>  | <u><b>(6,253,465)</b></u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                              |
| Grant Proceeds - EPA   | 6,474,000                    |
| Grants to Other Organizations  | (1,110,728)                  |
| State Appropriations   | 1,300,000                    |
| Unearned Revenues  | 1,100,000                    |
| Cash Payments for Administrative Expenses, Net   | <u>(665,749)</u>             |
| <b>Net Cash Provided by Noncapital Financing Activities</b>  | <u><b>7,097,523</b></u>      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>844,058</b>               |
| Cash and Cash Equivalents - Beginning of Year  | <u>149,333,383</u>           |
| <b>Cash and Cash Equivalents - End of Year</b>   | <u><b>\$ 150,177,441</b></u> |
| <b>RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                              |
| Operating Income   | <u>\$ 4,534,241</u>          |
| Change in Assets and Liabilities:  |                              |
| Loans Receivable   | (12,033,607)                 |
| Interest on Loans Receivable   | 1,304,026                    |
| Other Receivables  | <u>(58,125)</u>              |
| <b>Total Reconciling Adjustments</b>   | <u><b>(10,787,706)</b></u>   |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>  | <u><b>\$ (6,253,465)</b></u> |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1. DEFINITION OF REPORTING ENTITY**

**Clean Water State Revolving Fund.** The New Mexico Clean Water State Revolving Fund (the Fund) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The Act provides loans at reduced interest rates to finance the construction of publicly-owned water pollution control facilities, non-point source pollution control projects and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the Fund provides for low interest rate loans to finance qualified projects. The Fund provides a flexible financing source that can be used for a variety of pollution control projects. Repayment terms for loans made by the Fund can extend up to 30 years, including interest and principal. All repayments received must remain in the Fund.

The Fund was capitalized by the U.S. Environmental Protection Agency (EPA) by a series of grants starting in 1989. States are required to provide an additional 20% of the Federal capitalization grant as matching funds in order to receive a grant.

The Fund is administered by the State of New Mexico Environment Department (the Department) through the Construction Programs Bureau.

In fiscal year 2008, the "Clean Water Administrative Fund" (SHARE 32700) was created in the state treasury as authorized by 74-6A-4.1 NMSA 1978 and is administered by the Department as an agent for the Water Quality Control Commission (the Commission) (see NMAC 20.7.5). The Clean Water Administrative Fund is a dedicated fund, and all money in the Clean Water Administrative Fund is appropriated to the Department to be used solely to administer the Wastewater Facility Construction Loan Fund (SHARE 12100). The Commission may establish procedures, adopt regulations and set fees as required to administer the Clean Water Administrative Fund in accordance with the Clean Water Act and state law.

The Fund is comprised of these two funds as presented in the financial statements: Wastewater Facility Construction Loan Fund (SHARE 12100) and Clean Water Administrative Fund (SHARE 32700). These funds are presented as two separate functions in the combining statements of functional activity. These two funds are non-reverting.

These financial statements present only the Fund and are not intended to present fairly the financial position and results of operations of the Department. The EPA requires the Department to submit an annual report and an annual financial statement audit of the Fund. As a result, the Department issues this separate set of financial statements consisting of these two funds of the Department.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates in Preparing Financial Statements.** 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Accounting.** The Fund consists of two enterprise funds of the Department. The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

**Basis of Presentation.** The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as applied to governmental units prescribed by the GASB. The Fund is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The Fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods regarding a proprietary fund's principal ongoing operations. The principal operating revenues of the fund are interest on loans made to municipalities for clean water projects. Operating expenses include administrative expenses required to manage and operate the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Net Position.** The Fund Financial Statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted. There is no net investment in capital assets or unrestricted net position at June 30, 2018.

**Restricted Net Position.** Net position should be reported as restricted when constraints placed on net position use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Enabling legislation must be legally enforceable. Legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups or the judiciary – to use resources only for the purposes specified by the legislation. All net position is restricted by enabling legislation at June 30, 2018. Net position is restricted for future loans for waste water projects and the administration of the Fund.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments in State General Fund Investment Pool.** New Mexico state law requires that the Fund's investments be managed by the New Mexico State Treasurer's Office. Accordingly, the Fund's investments consist of investments in the New Mexico State Treasurer's Office General Fund Investment Pool. Investment maturities within the pool range from one day to three years. The fair value of the Fund's investment in the pool at June 30, 2018 was \$150,177,441, respectively. The Fund does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The New Mexico State Treasurer's Office General Fund Investment Pool is not rated. For additional GASB 40 disclosure information related to the New Mexico State Treasurer's Office General Fund Investment Pool, the reader should refer to the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2018.

**Cash and Cash Equivalents.** For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Deferred Outflows/Inflows of Resources.** In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund did not have any items that qualified for reporting in this category as of June 30, 2018.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Fund did not have any items that were required to be reported in this category as of June 30, 2018.

**Loans Receivable.** The Fund is operated as a direct loan program, whereby the total loan amount made to communities is funded by the federal capitalization grant, the state matching amount, loan repayments and interest earned. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan, and request reimbursement from the Fund. Interest is calculated from the date that funds are reimbursed and, after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. No provision for uncollectible accounts has been made as all loans are current, and management believes that all loans will be repaid according to the loan terms. All loan revenue and the administrative allocation are reported as operating. Capitalization grants and appropriations from federal and state sources are reported as non-operating.

**Loan Administrative Fee.** As determined by Program management and provided for in New Mexico State Law (74-6A-1-9 NMSA 1978 et seq.), the annual administrative fee to be calculated on the outstanding principal balance is variable based on the interest rate and the loan terms, not to exceed 5% of the total loan amount. The administrative fee is collected annually with the borrower's payment.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**State Matching Funds.** The 20% required state match has been funded from the Public Project Revolving Fund, administered by the New Mexico Finance Authority. This is subject to change in future years as determined by the State Legislature.

**Budgets.** Loan activities are not subject to a budget. However, a state legally adopted budget was prepared and approved for administrative expenses incurred to administer the Wastewater Facility Construction Loan Fund that is funded by administrative fees that are deposited into the Clean Water Administrative Fund. No instances of excess expenditures over budgeted expenditures were identified for these budgets.

**Financial Reporting Entity.** The Department has no component units.

**NOTE 3. STATE GENERAL FUND INVESTMENT POOL**

Compliant with Statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

On August 13, 2018, the State Controller asserted the following:

1. The comprehensive reconciliation model which compares aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office is now in its fourth year. This process has been reviewed multiple times by the IPA's performing audits of the General Fund, the Department of Finance and Administration, and the State of New Mexico's Comprehensive Annual Financial Report. The reviews have deemed the process to be sound and the Department fully compliant with the requirements of the monthly process.
2. As of June 30, 2018, resources held in the pool were equivalent to the corresponding business unit claims on those resources.
3. All claims as recorded in SHARE shall be honored at face value.

State law (Section 8-6-3 NMSA 1978) requires the Fund's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Fund consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2018**

**NOTE 4. LOANS RECEIVABLE**

Loans receivable represent both interest and non-interest-bearing loans disbursed to various municipalities within the State of New Mexico to construct or modify wastewater facilities. Loans for projects in progress represent those projects still under construction. Upon completion, accrued interest is either paid or added to the principal balance of the final loan. These loans are reporting as non-current. The loans in repayment represent completed projects from which the Fund is receiving payments of principal and interest. Current portion of loans is the amount expected to be received within the next fiscal year. Loans receivable as of June 30 consist of the following:

|                                       | <b>2018</b>           |
|---------------------------------------|-----------------------|
| Loans-Projects in Progress            | \$ 33,381,483         |
| Accrued Interest                      | 661,408               |
| <b>Total Loans in Progress</b>        | <b>\$ 34,042,891</b>  |
| <br>                                  |                       |
| Loans in Repayment-Completed Projects | \$ 137,733,418        |
| Accrued Interest                      | 925,475               |
| <b>Total Completed Loans</b>          | <b>\$ 138,658,893</b> |

The loans are secured with pledged revenue from the operations of the borrowers' joint water and sewer system, less operation and maintenance expenses. The loans bear interest at rates ranging from zero to three percent per annum. Loans for projects under construction are transferred to final loans upon completion of the projects. Loans for completed projects are paid in annual installments, including interest, ranging from \$2,495 to \$2,500,000.

**Projects in Progress.** The balances of projects in progress at June 30 are as follows:

|              | <b>2018</b>          |
|--------------|----------------------|
| Farmington   | \$ 20,805,409        |
| Grants       | 10,601,965           |
| Peralta      | 333,392              |
| Cuba         | 404,700              |
| Santa Rosa   | 237,825              |
| Hobbs        | 124,307              |
| Gallup       | 873,885              |
| <b>Total</b> | <b>\$ 33,381,483</b> |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2018**

**NOTE 4. LOANS RECEIVABLE (CONTINUED)**

**Completed Projects.** The balances of completed projects at June 30 are as follows:

| Name  | <u>2018</u>                         |
|---|-------------------------------------|
| Portales  | \$ 25,251,000                       |
| Hobbs   | 21,805,777                          |
| Carlsbad  | 19,414,220                          |
| Los Lunas   | 14,372,820                          |
| Los Alamos County                                   | 7,197,356                           |
| Farmington  | 6,689,746                           |
| Clovis  | 4,800,957                           |
| Las Vegas   | 8,904,264                           |
| Lovington   | 3,760,201                           |
| Espanola  | 3,673,992                           |
| Aztec   | 6,291,587                           |
| Dona Ana County                                     | 2,887,137                           |
| Bloomfield  | 1,317,362                           |
| Southern Sandoval County Arroyo Flood Control       | 1,203,480                           |
| El Valle de Los Ranchos Water & Sanitation District | 1,570,910                           |
| Belen   | 1,167,361                           |
| Taos (Town)   | 900,000                             |
| Taos Ski Valley                                     | 1,209,212                           |
| Socorro (City)                                      | 1,270,011                           |
| Bayard  | 762,368                             |
| Belen   | 737,225                             |
| San Juan County                                     | 660,736                             |
| Santa Rosa  | 325,000                             |
| Elephant Butte                                      | 323,844                             |
| Sandoval County                                     | 303,949                             |
| Logan   | 235,160                             |
| Eagle Nest  | 151,838                             |
| Jemez Springs                                       | 114,594                             |
| Ruidoso Downs                                       | 69,403                              |
| San Miguel County                                   | 69,199                              |
| Wagon Mound   | 66,629                              |
| Tucumcari   | 65,000                              |
| Chama   | 61,184                              |
| Other Communities                                   | 99,896                              |
| <b>Total</b>  | <b><u><u>\$ 137,733,418</u></u></b> |



**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2018**

**NOTE 4. LOANS RECEIVABLE (CONTINUED)**

The following is a schedule of future annual payments including principal, interest and administrative fee, as of June 30, 2018:

**(12100) Wastewater Facility Construction Loan Fund**

| <u>Years Ending June 30,</u> | <u>Principal<br/>Repayments</u> | <u>Interest<br/>Payments</u> | <u>Fee<br/>Payments</u> | <u>Total</u>          |
|------------------------------|---------------------------------|------------------------------|-------------------------|-----------------------|
| 2019                         | \$ 8,951,518                    | \$ 1,456,415                 | \$ 361,378              | \$ 10,769,311         |
| 2020                         | 9,767,674                       | 1,550,607                    | 348,986                 | 11,667,267            |
| 2021                         | 9,919,491                       | 1,420,520                    | 324,309                 | 11,664,320            |
| 2022                         | 10,056,251                      | 1,287,666                    | 299,188                 | 11,643,105            |
| 2023                         | 10,217,145                      | 1,152,266                    | 273,694                 | 11,643,105            |
| 2024 and Thereafter          | 88,821,339                      | 5,337,518                    | 1,450,117               | 95,608,974            |
| Completed Projects Totals    | <u>\$ 137,733,418</u>           | <u>\$ 12,204,992</u>         | <u>\$ 3,057,672</u>     | <u>\$ 152,996,082</u> |

**NOTE 5. LOAN COMMITMENTS**

As of June 30, 2018, the Fund executed binding commitments to disburse loans from the Fund in the amount of \$18,878,440.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2018**

**NOTE 6. FEDERAL GRANT AWARDS AND CORRESPONDING STATE MATCHES**

The following table represents the federal grant allotments and state matching appropriations as of June 30, 2018 that have been allocated to the Fund since its inception.

| Award Year   | Federal<br>Capitalization<br>Grants | State<br>Matching<br>Appropriations |
|--------------|-------------------------------------|-------------------------------------|
| 1986         | \$ -                                | \$ 2,000,000                        |
| 1987         | -                                   | 1,125,000                           |
| 1988         | 5,809,763                           | 2,800,300                           |
| 1989         | 8,558,400                           | -                                   |
| 1990         | 6,345,400                           | 1,600,000                           |
| 1991         | 10,075,032                          | 1,000,000                           |
| 1992         | 9,534,900                           | -                                   |
| 1993         | 9,431,000                           | 2,000,000                           |
| 1994         | 5,813,800                           | 2,000,000                           |
| 1995         | 6,007,800                           | 1,979,710                           |
| 1996         | 9,904,653                           | 1,712,205                           |
| 1997         | 2,990,500                           | -                                   |
| 1998         | 6,577,300                           | 1,500,000                           |
| 1999         | 6,577,900                           | 1,320,000                           |
| 2000         | 6,555,200                           | -                                   |
| 2001         | -                                   | -                                   |
| 2002         | 6,496,100                           | 2,000,000                           |
| 2003         | 6,510,800                           | -                                   |
| 2004         | 6,467,800                           | 4,500,000                           |
| 2005         | 6,835,400                           | 1,500,000                           |
| 2006         | 5,243,500                           | 1,500,000                           |
| 2007         | 4,242,300                           | 1,500,000                           |
| 2008         | 5,207,300                           | 1,500,000                           |
| 2009         | 3,274,300                           | -                                   |
| 2010         | 3,274,300                           | 660,000                             |
| 2011         | 10,002,000                          | -                                   |
| 2012         | 7,222,000                           | -                                   |
| 2013         | 6,908,000                           | 2,844,400                           |
| 2014         | 6,520,000                           | 1,400,000                           |
| 2015         | 6,853,000                           | 1,300,000                           |
| 2016         | 6,817,000                           | 1,300,000                           |
| 2017         | 6,525,000                           | 1,400,000                           |
| 2018         | 6,474,000                           | 1,300,000                           |
| <b>Total</b> | <u>\$ 199,054,448</u>               | <u>\$ 41,741,615</u>                |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2018**

**NOTE 6. FEDERAL GRANT AWARDS AND CORRESPONDING STATE MATCHES (CONTINUED)**

As of June 30, 2018, the State of New Mexico has future matched the Fund by \$1,930,725. This future match will be applied to future federal grant awards as part of the 20% required match. In addition, the Fund was awarded \$23,789,100 in ARRA funds not subject to the 20% state match.

**NOTE 7. ADMINISTRATIVE EXPENSES**

Since the inception of the Fund, administrative expenses have been drawn from the federal capitalization grant allotments of 100% because state matching appropriations were spent first for loans. For fiscal years ended June 30, 1997 and 1998, the Department changed its policy regarding the administrative fees and began drawing down the federal grants at 83.3% and from the State matching appropriations at 16.7%. A retroactive calculation was made to determine the state match to be used for administrative expenses for these two years. Subsequent to fiscal year ended June 30, 1999, management decided to draw expenses 100% from the federal capitalization grant allotments and make this retroactive to inception. As of June 30, 2008, administrative expenses were drawn down 100% from the federal capitalization grant and the Fund plans to consistently draw using this method for future years. Irrespective of the administrative draw method used, the Fund has never drawn Federal funds in excess of an overall ratio of 83.3% federal capitalization grants and 16.7% State of New Mexico. The Fund has drawn \$8,146,688 in administrative costs since its inception through June 30, 2016. This amount is within the 4% limit imposed by the EPA capitalization grants. Fiscal year 2017 was the first year administrative expenses were paid from net position and were limited by 1/5<sup>th</sup> of 1% of net position of the most recent audited financial statements. This will continue for the current and all future fiscal years.

**NOTE 8. CONTINGENCIES**

**Federal Award Program.** Expenditures under the EPA grant program may be subject to fiscal and/or program compliance audits by the grantor, which may result in disallowed program expenditures. Generally, such audits must commence within three years of the program's termination date. The EPA performs certain procedures on an annual basis to determine compliance with program requirements. Expenditures disallowed are required to be repaid as a result of such audits, if any, and would require an appropriation from the State General Fund.

**Risk Management.** The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business or acts of God.

The Fund maintains insurance for all risks of loss through the State of New Mexico Risk Management Division, which is included in the indirect costs charged to the Fund. There have not been any claims against the Fund since its inception.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2018**

**NOTE 9. FUNDS AT AUTOMATED CLEARING HOUSE (ACH)**

Annually the Fund's management requests the EPA release amounts from the capitalization grant to the ACH.

As of June 30, 2018 balances at the ACH are as follows:

|                                       | <b>2018</b>        |
|---------------------------------------|--------------------|
| Balance at Beginning of Year          | \$ -               |
| Amounts Released to ACH During Year   | <b>6,474,000</b>   |
| Drawdowns for Loans                   | <b>(6,474,000)</b> |
| Drawdowns for Administrative Expenses | -                  |
| <b>Total</b>                          | <b>\$ -</b>        |

**NOTE 10. RESTRICTED NET POSITION**

The wastewater facility construction loan fund was established by 74-6A-4 to carrying out the federal Clean Water Act to provide loans for the construction or rehabilitation of wastewater facilities. The fund receives federal capitalization grants, state appropriations and earns interest on the outstanding loans of the fund. The net position of the wastewater facility construction loan fund is considered restricted to making these loans. The clean water administrative fund was established by 74-6A-4.1 NMSA 1978 and shall be a dedicated fund, in which all money in the clean water administrative fund is appropriated to the Department to be used solely to administer the wastewater facility construction loan fund, which may include water quality planning and water quality analysis and protection studies if authorized by the department and, if necessary, the United States Environmental Protection Agency. The net position of the clean water administrative fund is restricted for administering the wastewater facility construction loan fund.

Restricted net position consists of the following at June 30:

|   | <b>2018</b>           |
|---|-----------------------|
| Restricted for:   |                       |
| Future Loans  | \$ 319,125,722        |
| Administration of the Wastewater Facility<br>Construction Loan Fund | <b>2,898,803</b>      |
| <b>Total</b>  | <b>\$ 322,024,525</b> |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2018**

**NOTE 11. ACCRUED INTEREST RECEIVABLE**

The following schedule shows changes to accrued interest receivable for the year ending June 30, 2018. Entities are permitted to capitalize construction period interest upon project completion.

|                      | <u>2018</u>                |
|----------------------|----------------------------|
| Beginning of Year    | \$ 2,890,909               |
| Interest Earned      | 2,389,849                  |
| Interest Received    | (1,824,557)                |
| Capitalized Interest | <u>(1,869,318)</u>         |
| <b>End of Year</b>   | <u><u>\$ 1,586,883</u></u> |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENT OF NET POSITION BY FUNCTIONAL ACTIVITIES  
JUNE 30, 2018**

**COMBINING STATEMENT OF NET POSITION**

|  | <b>(12100)</b>   | <b>(32700)</b>                                 |                              |
|--|--|--|------------------------------|
|  | <b>Waste water<br/>Facility<br/>Construction<br/>Loan Fund</b> | <b>Clean Water<br/>Administrative<br/>Fund</b> | <b>Total</b>                 |
|  | <u>          </u>  | <u>          </u>                              | <u>          </u>            |
| <b>ASSETS</b>  |  |  |                              |
| <b>CURRENT ASSETS</b>  |  |  |                              |
| Investments in State General Fund                                    |  |  |                              |
| Investment Pool  | \$ 147,523,942   | \$ 2,653,499                                   | \$ 150,177,441               |
| Receivables:   |  |  |                              |
| Interest on Loans  | 1,586,883  | -  | 1,586,883                    |
| Loan Receivables:  |  |  |                              |
| Current Portion of Completed Projects,<br>Net of Origination Fees    | 8,951,518  | -  | 8,951,518                    |
| Administrative Fee Receivable  | <u>-</u>   | <u>245,304</u>                                 | <u>245,304</u>               |
| <b>Total Current Assets</b>  | <u><b>158,062,343</b></u>                                      | <u><b>2,898,803</b></u>                        | <u><b>160,961,146</b></u>    |
| <b>LONG-TERM ASSETS</b>  |  |  |                              |
| Loan Receivables:  |  |  |                              |
| Noncurrent Portion of Projects in Progress                           | 33,381,483   | -  | 33,381,483                   |
| Noncurrent Portion of Completed Projects,<br>Net of Origination Fees | <u>128,781,900</u>   | <u>-</u>                                       | <u>128,781,900</u>           |
| <b>Total Noncurrent Assets</b>                                       | <u><b>162,163,383</b></u>                                      | <u><b>-</b></u>                                | <u><b>162,163,383</b></u>    |
| <b>Total Assets</b>  | <u><b>\$ 320,225,726</b></u>                                   | <u><b>\$ 2,898,803</b></u>                     | <u><b>\$ 323,124,529</b></u> |
| <b>LIABILITIES</b>   |  |  |                              |
| Accounts Payable   | \$ 4   | \$ -   | \$ 4                         |
| Unearned Revenues  | <u>1,100,000</u>   | <u>-</u>                                       | <u>1,100,000</u>             |
| <b>Total Liabilities</b>   | <u><b>1,100,004</b></u>  | <u><b>-</b></u>                                | <u><b>1,100,004</b></u>      |
| <b>NET POSITION</b>  |  |  |                              |
| Restricted   | <u>319,125,722</u>   | <u>2,898,803</u>                               | <u>322,024,525</u>           |
| <b>Total Liabilities and Net Position</b>                            | <u><b>\$ 320,225,726</b></u>                                   | <u><b>\$ 2,898,803</b></u>                     | <u><b>\$ 323,124,529</b></u> |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
FUND NET POSITION BY FUNCTIONAL ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**

|  | <b>(12100)</b>  |    | <b>(32700)</b>                                 |                       |
|--|---|----|--|-----------------------|
|  | <b>Wastewater<br/>Facility<br/>Construction<br/>Loan Fund</b> |    | <b>Clean Water<br/>Administrative<br/>Fund</b> | <b>Total</b>          |
|  |   |    |  |                       |
| <b>REVENUES</b>                                |   |    |  |                       |
| Interest on Loans                              | 2,389,849   | \$ | -  | \$ 2,389,849          |
| Interest on Investments                        | 1,272,545   |    | 17,426   | 1,289,971             |
| Debt Service Fees                              | -   |    | 854,421  | 854,421               |
| Other income                                   | -   |    | -  | -                     |
| <b>Total Revenues</b>                          | <b>3,662,394</b>  |    | <b>871,847</b>                                 | <b>4,534,241</b>      |
| <b>EXPENSES</b>                                |   |    |  |                       |
| Administrative Expenses                        | -   |    | -  | -                     |
| <b>Total Expenses</b>                          | -   |    | -  | -                     |
| <b>OPERATING INCOME</b>                        | <b>3,662,394</b>  |    | <b>871,847</b>                                 | <b>4,534,241</b>      |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>       |   |    |  |                       |
| Federal Award Programs                         | 6,474,000   |    | -  | 6,474,000             |
| Grants to Other Organizations                  | (1,110,728)   |    | -  | (1,110,728)           |
| State Appropriations                           | 1,300,000   |    | -  | 1,300,000             |
| Transfers (06400) Admin Expenses               | (527,833)   |    | (137,916)                                      | (665,749)             |
| <b>Total Non-Operating Revenues (Expenses)</b> | <b>6,135,439</b>  |    | <b>(137,916)</b>                               | <b>5,997,523</b>      |
| <b>CHANGE IN NET POSITION</b>                  | <b>9,797,833</b>  |    | <b>733,931</b>                                 | <b>10,531,764</b>     |
| Total Net Position - Beginning                 | <b>309,327,889</b>  |    | <b>2,164,872</b>                               | <b>311,492,761</b>    |
| <b>TOTAL NET POSITION - ENDING</b>             | <b>\$ 319,125,722</b>   |    | <b>\$ 2,898,803</b>                            | <b>\$ 322,024,525</b> |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2018**

**COMBINING STATEMENT OF CASH FLOWS**

(12100)

|   |  |
|---|--|
| Wastewater<br>Facility<br>Construction<br>Loan Fund | (32700)<br>Clean Water<br>Administrative<br>Fund |
| Loan Fund   | Fund   |

Total

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |                    |                |                    |
|--|--------------------|----------------|--------------------|
| Cash Received on Repayment of Loan Principal             | \$ 12,166,020      | \$ -           | \$ 12,166,020      |
| Cash Received on Interest from Loans                     | 1,824,557          | -              | 1,824,557          |
| Interest Payments Received from State Treasurer's Office | 1,272,545          | 17,426         | 1,289,971          |
| Cash Received for Debt Service Fees                      | -                  | 796,296        | 796,296            |
| Cash Received for Other                                  | -                  | -              | -                  |
| Cash Payments Made for Administrative Expenses           | -                  | -              | -                  |
| Cash Payments Made to Borrowers                          | (22,330,309)       | -              | (22,330,309)       |
| <b>Net Cash Provided by Operating Activities</b>         | <b>(7,067,187)</b> | <b>813,722</b> | <b>(6,253,465)</b> |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|  |                  |                  |                  |
|--|------------------|------------------|------------------|
| Grant Proceeds - EPA   | 6,474,000        | -                | 6,474,000        |
| Grants to Other Organizations  | (1,110,728)      | -                | (1,110,728)      |
| State Appropriations   | 1,300,000        | -                | 1,300,000        |
| Unearned Revenues  | 1,100,000        | -                | 1,100,000        |
| Cash Payments for Administrative Expenses, Net                         | (527,833)        | (137,916)        | (665,749)        |
| <b>Net Cash Provided (Used) by Noncapital<br/>Financing Activities</b> | <b>7,235,439</b> | <b>(137,916)</b> | <b>7,097,523</b> |

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

|  |                       |                     |                       |
|--|-----------------------|---------------------|-----------------------|
|  | 168,252               | 675,806             | 844,058               |
| Cash and Cash Equivalents - Beginning of Year  | 147,355,690           | 1,977,693           | 149,333,383           |
| <b>Cash and Cash Equivalents - End of Year</b> | <b>\$ 147,523,942</b> | <b>\$ 2,653,499</b> | <b>\$ 150,177,441</b> |

**RECONCILIATION OF CHANGES IN NET POSITION TO NET**

**CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

|                                      |                     |                 |                     |
|--------------------------------------|---------------------|-----------------|---------------------|
| Operating Income                     | \$ 3,662,394        | \$ 871,847      | \$ 4,534,241        |
| Change in Assets and Liabilities:    |                     |                 |                     |
| Loans Receivable                     | (12,033,607)        | -               | (12,033,607)        |
| Interest on Loans Receivable         | 1,304,026           | -               | 1,304,026           |
| Administrative Fee Receivable        | -                   | (58,125)        | (58,125)            |
|                                      | -                   | -               | -                   |
| <b>Total Reconciling Adjustments</b> | <b>(10,729,581)</b> | <b>(58,125)</b> | <b>(10,787,706)</b> |

|  |                       |                   |                       |
|--|-----------------------|-------------------|-----------------------|
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b> | <b>\$ (7,067,187)</b> | <b>\$ 813,722</b> | <b>\$ (6,253,465)</b> |
|--|-----------------------|-------------------|-----------------------|



**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 SCHEDULE OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2018**

| <u>Federal Grantor/Pass through Grantor/Program or Cluster Title</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Entity<br/>Identifying<br/>Number</u> | <u>Passed<br/>Through to<br/>Subrecipients</u> | <u>Federal<br/>Participating<br/>Expenditures</u> |
|--|------------------------------------|---|--|---|
| <b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>                          |                                    |   |  |   |
| Direct Programs:   |                                    |   |  |   |
| <b>Clean Water State Revolving Funds (CWSRF) Cluster</b>             |                                    |   |  |   |
| Construction Loan, Construction/Grant -<br>CS35000216                | 66.458                             | N/A   | \$ 6,474,000                                   | \$ 6,474,000                                      |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>                          |                                    |   | <u>\$ 6,474,000</u>                            | <u>\$ 6,474,000</u>                               |

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

**BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Fund under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Fund.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Amounts reported in the Schedule are reported on the accrual basis of accounting. The Fund has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**NON-CASH ASSISTANCE**

The Fund did not receive any federal non-cash assistance during the year ended June 30, 2018.

**LOANS**

The Fund does not have any loans outstanding with the Federal government at June 30, 2018.

**SUBRECIPIENTS**

The Fund receives capitalization grants to create and maintain the Clean Water State Revolving Fund program (CWSRF, CFDA 66.458). The Fund can use the capitalization grants to provide loans at reduced interest rates to finance the construction of publicly-owned water pollution control facilities, non-point source pollution control projects and estuary management plans. Loans made by the Fund may have a repayment period of up to 30 years, and all repayments, including interest and principal, must remain within the Wastewater Facility Construction Loans Fund of the Fund. Capitalization loans processed for CWSRF for the year ended June 30, 2018 were \$22,330,309. CWSRF outstanding loans at June 30, 2018 were \$171,114,901. The Fund provided in fiscal year 2018 \$1,110,728 in grants to various communities throughout New Mexico to subsidize their loans.

Of the \$6,474,000 represented in the Schedule of Expenditures of Federal Awards, \$89,625 was provided as a grant and \$6,384,375 was provided as loan disbursements. The amounts are included in the schedule of expenditures of federal awards as Construction Loan and Construction Grant (CFDA 66.458).

**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2018**

**SUBRECIPIENTS (CONTINUED)**

|                            | Fiscal Year<br>2018 Federal<br>Grant | Fiscal Year<br>2017 Federal<br>Revolving Loan | Total               |
|----------------------------|--------------------------------------|---|---------------------|
| City of Aztec              | \$ -                                 | \$ 756,612                                    | \$ 756,612          |
| City of Grants             | -                                    | 2,885,419                                     | 2,885,419.00        |
| City of Santa Rosa         | -                                    | 47,309  | 47,309.00           |
| Village of Peralta         | -                                    | 179,748                                       | 179,748.00          |
| City of Carlsbad           | -                                    | 38,199  | 38,199              |
| Village of Taos Ski Valley | -                                    | 160,802                                       | 160,802             |
| City of Farmington         | -                                    | 1,647,486                                     | 1,647,486           |
| San Juan County            | -                                    | 264,100                                       | 264,100             |
| Village of Cuba            | \$ 89,625                            | \$ 404,700                                    | \$ 494,325          |
|                            | <u>\$ 89,625</u>                     | <u>\$ 6,384,375</u>                           | <u>\$ 6,474,000</u> |



**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**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***

Mr. Butch Tongate, Cabinet Secretary  
Clean Water State Revolving Fund of the  
New Mexico Environment Department

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 of the Clean Water State Revolving Fund (the Fund), of the New Mexico Environment Department (Department) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and the combining statements of net position by functional activities, combining statements of revenue, expenses, and changes in fund net position by functional activities, and the combining statements of cash flows of the Fund, presented as supplementary information, and have issued our report thereon dated October 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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.

Mr. Butch Tongate, Cabinet Secretary  
Clean Water State Revolving Fund of the  
New Mexico Environment Department

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from 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 instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

### **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 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.



Office of the State Auditor  
Santa Fe, New Mexico  
October 30, 2018



**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE THE MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Mr. Butch Tongate, Cabinet Secretary  
Clean Water State Revolving Fund of the  
New Mexico Environment Department

**Report on Compliance for the Major Federal Program**

We have audited the Clean Water State Revolving Fund (the Fund) of the New Mexico Environment Department (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended June 30, 2018. The Fund's major federal program is 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**

Our responsibility is to express an opinion on compliance for each of the Fund'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 Fund'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 major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Mr. Butch Tongate, Cabinet Secretary  
Clean Water State Revolving Fund of the  
New Mexico Environment Department

### **Opinion on the Major Federal Program**

In our opinion, the Fund 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, 2018.

### **Report on Internal Control Over Compliance**

Management of the Fund 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 Fund'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 Fund'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, 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.



Office of the State Auditor  
Santa Fe, New Mexico  
October 30, 2018

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2018**

**NONE**



**NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 JUNE 30, 2018**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major programs:

**CFDA**

| Number(s) | Name of Federal Program or Cluster                |
|-----------|---|
| 66.458    | Clean Water State Revolving Funds (CWSRF Cluster) |

Dollar threshold used for distinguishing between Type A and B programs: \$791,501\*

Did the Auditee qualify as a low-risk auditee? YES\*

\*This information was derived from the Department’s threshold and risk determination.

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2018**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
EXIT CONFERENCE  
JUNE 30, 2018**

An exit conference was held with the Department on October 30, 2018. The conference was held at the Department's offices in Santa Fe, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

**NEW MEXICO ENVIRONMENT DEPARTMENT**

|                   |                         |
|-------------------|-------------------------|
| Butch Tongate     | Secretary               |
| Marlene Velasquez | Chief Financial Officer |

**OFFICE OF THE STATE AUDITOR**

|                      |                                    |
|----------------------|------------------------------------|
| Lisa Jennings        | Audit Supervisor                   |
| Lynette Kennard, CPA | Director, Financial Audit Division |
| Elise Mignardot, CPA | Audit Manager                      |

*The Office of the State Auditor assisted in the preparation of the financial statements presented in this report. The Department's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.*