

STATE OF NEW MEXICO  
ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
Santa Fe, New Mexico

FINANCIAL STATEMENTS  
June 30, 2012 and 2011

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## **Independent Auditors' Report**

State of New Mexico Environment Department  
Clean Water State Revolving Fund  
Santa Fe, New Mexico

We have audited the accompanying statement of net assets of the Clean Water State Revolving Fund (the Fund) of the State of New Mexico Environment Department (the Department) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. We have also audited the combining statements of net assets by functional activities and the combining statements of revenues, expenses and changes in fund net assets by functional activities as of and for the years ended June 30, 2012 and 2011, presented as supplemental information, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the operations of the Fund, and do not purport to, and do not, present fairly the financial position of the Department or the State of New Mexico as of June 30, 2012 and 2011, and the changes in the financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund of the Department as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly the respective financial position of the functional activities of the Fund as of June 30, 2012 and 2011, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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.

Our audits were conducted for the purpose of forming opinions on the basic financial statements and the combining and individual fund financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 taken as a whole.

*CliftonLarsonAllen LLP*

Albuquerque, New Mexico  
December 10, 2012

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

The New Mexico Environment Department, 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 years that ended June 30, 2012 and 2011. 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 Construction Programs Bureau implemented Governmental Accounting Standards Board Statement 34 in Fiscal Year ending June 30, 2002. 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) 2012, the CWSRF reported total net assets of \$251,610,835, an increase of \$11,657,116 in comparison with the prior year. This 4.8% annual growth demonstrates a growing, healthy fund.
- The CWSRF was awarded \$7,222,000 from one federal capitalization grant. Cumulative grants since inception total \$182,746,548.
- The CWSRF collected \$12,877,947 in loan repayment principal, \$3,477,895 in loan interest and \$397,669 in administrative fees. Total principal, interest and administrative fees received were \$16,753,511.
- The CWSRF fund received \$106,354 of interest income on overnight funds deposited at the State Treasurer's Office. This continues to reflect the low rate of return the state has experienced on investments the last few years.
- Fund 12100 disbursed \$12,917,791 for construction projects in SFY 2012.
- Fund 12100 incurred costs of \$293,978 in administration expenses.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**Condensed Financial Information (Government-wide)**

	<u>2012</u>	<u>2011</u>
<b>NET ASSETS</b>		
Assets:		
Current and other assets	\$ 96,690,465	\$ 84,558,623
Non-current assets	<u>154,939,781</u>	<u>155,445,464</u>
<b>TOTAL ASSETS</b>	<u>\$ 251,630,246</u>	<u>\$ 240,004,087</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 19,411	\$ 50,368
<b>NET ASSETS</b>		
Restricted	<u>251,610,835</u>	<u>239,953,719</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 251,630,246</u>	<u>\$ 240,004,087</u>
<b>CHANGES IN NET ASSETS</b>		
Program revenues:		
Interest on loans	\$ 3,398,882	\$ 3,562,810
Investment income	117,001	118,696
Debt Services fees	397,669	195,038
General revenues:		
Federal award grant	10,104,882	17,255,276
State matching funds	-	660,000
Grants to other organizations	<u>(1,859,595)</u>	<u>(14,057,460)</u>
Total revenues	12,158,839	7,734,360
Program expenses		
Transfers - (06400) Administrative expenses	(207,745)	(307,124)
Administrative expenses	<u>(293,978)</u>	<u>(441,218)</u>
<b>CHANGE IN NET ASSETS</b>	11,657,116	6,986,018
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>239,953,719</u>	<u>232,967,701</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 251,610,835</u>	<u>\$ 239,953,719</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the New Mexico Environment Department'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 99.7% 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 assets presents information on the fund's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the fund is improving or deteriorating.

The statement of revenues, expenses and changes in fund net assets presents information showing how the fund's net assets changed during the most recent fiscal year. All changes in net assets 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 is cash only. The activity reflected from this statement is only recorded when cash was received or disbursed. A reconciliation is provided at the bottom of this statement to tie the operating income with the net cash provided by operating activities.

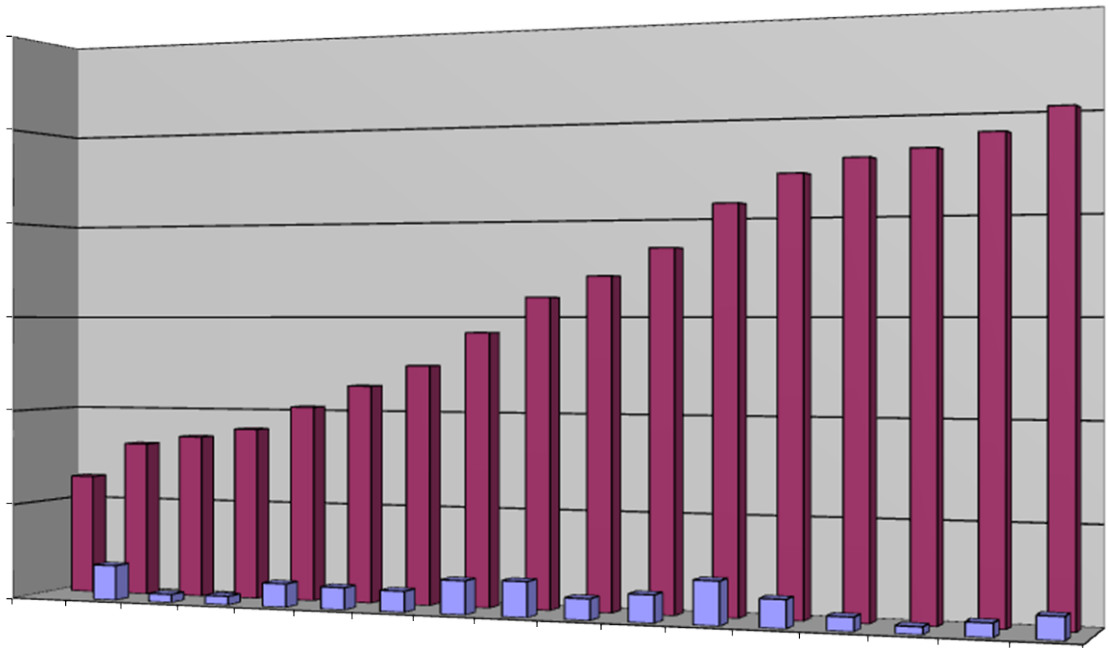
**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

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

The Fund 12100 Statement of Net Assets demonstrates that the fund grew by \$11.466 million during SFY2012. As mentioned previously, a growing fund balance is an indication of its health and stability. This fund has shown consistent growth over the years. This growth is attributed to a number of factors which include:

- ❖ A steady stream of federal funding in the form of annual federal grants
- ❖ Consistent funding from the State Government in the form of State Match
- ❖ A consistent positive return on investment from the State Treasurer's investment of cash deposits
- ❖ A strong return on investment from the borrower's loans (averaging 2%)
- ❖ An absence of defaults and delinquent borrowers which would reduce revenue
- ❖ Relatively low administrative expenses

The following graph 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:



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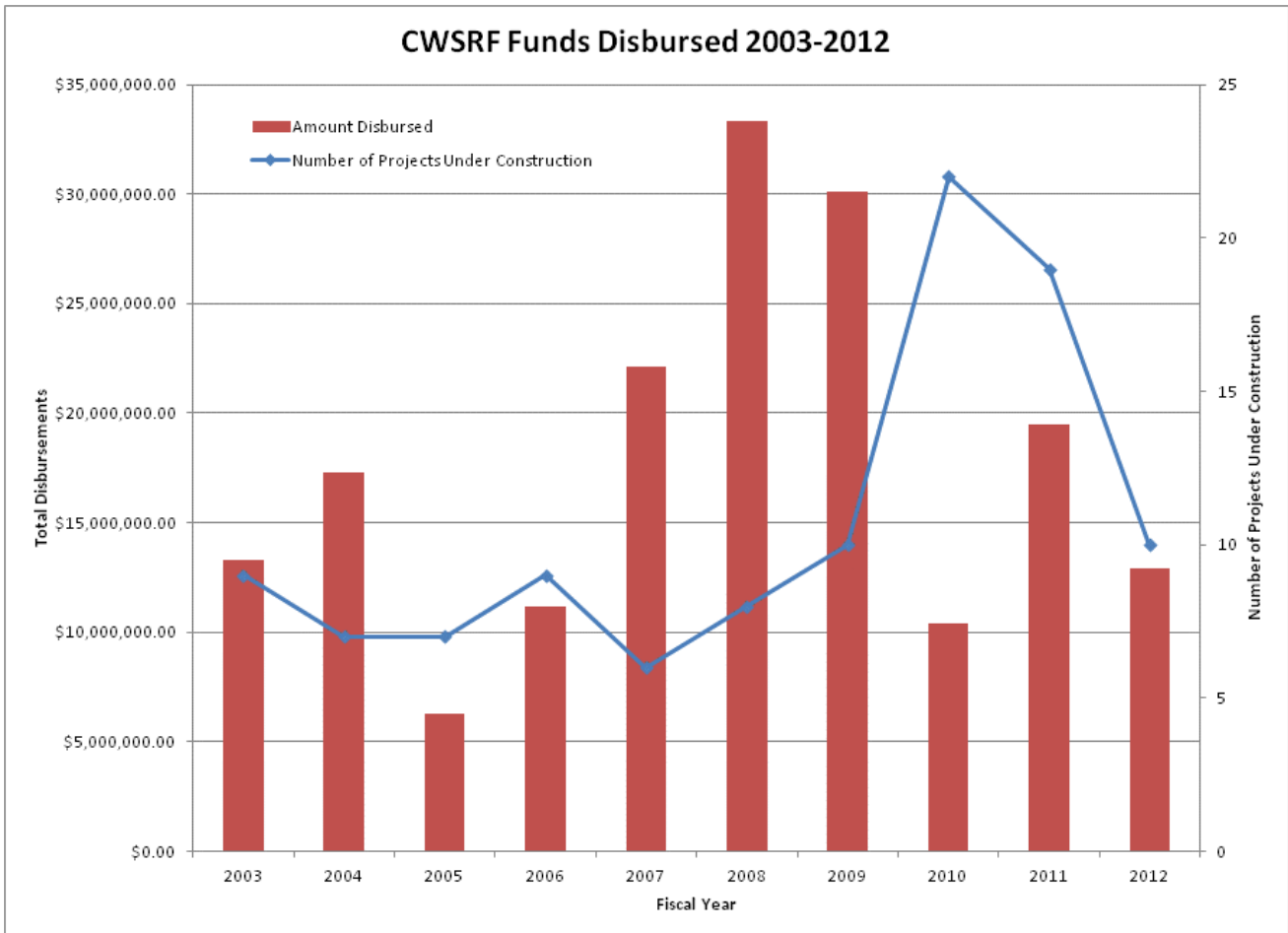


**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

**Performance**

The US Environmental Protection Agency (EPA) put goals in place in November 2011 for each state revolving fund to spend down appropriations to their funds. The goals included not only the capitalization grants that were open at that time, but the appropriations that followed. During SFY 2012, NM CWSRF closed the SFY 2010 and the American Recovery and Reinvestment Act (ARRA) capitalization grants, and spent 75% of the SFY 2011 capitalization grant. The fund is on pace to exceed its goal by the September 30, 2012 deadline, which is the close of the federal fiscal year.

The CWSRF made 4 new loans in SFY 2012. The chart below shows a large spike in the number of projects in construction in SFY 2010 due to the large number of ARRA projects undertaken. In SFY 2012, the CWSRF had 10 projects in construction, which matches the pre-ARRA peak. The fund disbursed \$12,917,791 to projects during SFY 2012.



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 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

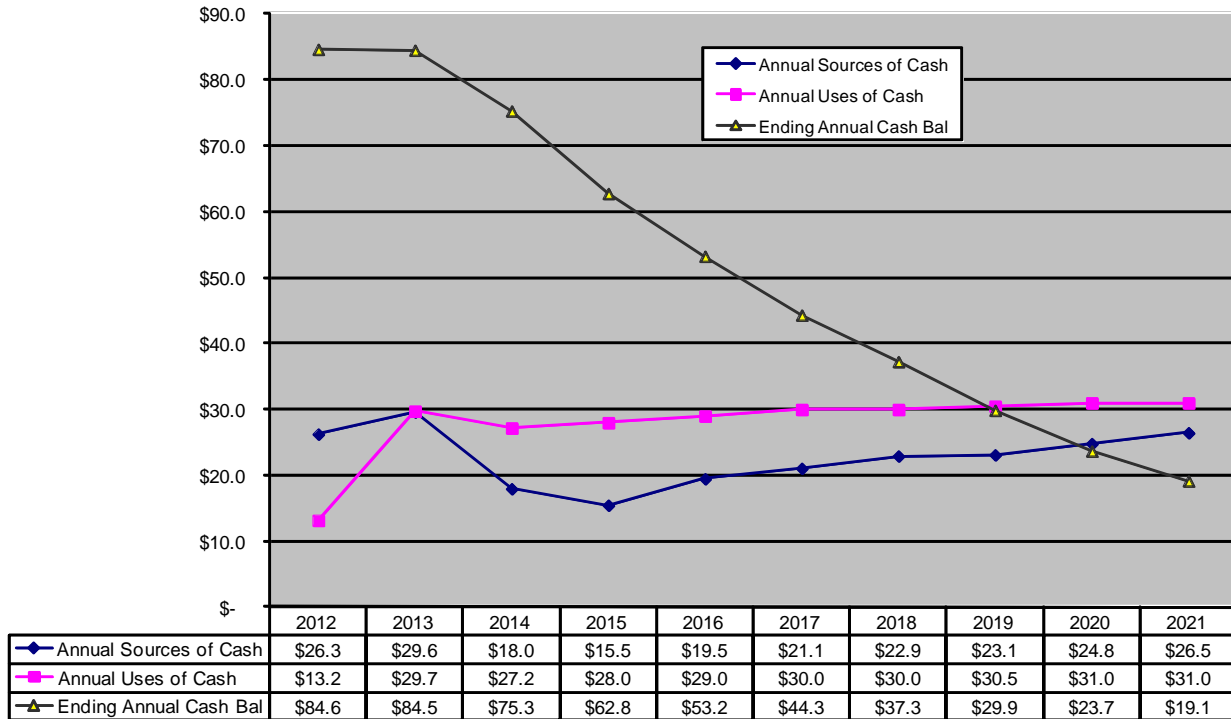
**Projections**

A cash flow model is used as a management tool for the Program. This model is used to plan for future construction projects and to provide management the tools to better match supply with demand. A graph of the model, with the resulting decrease in cash, is shown below:

This model demonstrates that after 2013, the Program projects funding levels to support a consistent funding stream of approximately \$28 to \$31 million annually.

This model demonstrates that after 2014 and until 2019, the program projects funding levels, which include fund balance, cash inflows and cash outflows, to support projects averaging \$29.9 million annually. After 2019, ending cash balance is projected to be less than projected outlays.

**New Mexico CWSRF Cash Flow Projection  
 (in \$ millions)  
 Actual data 2012, Projected as of 2013**

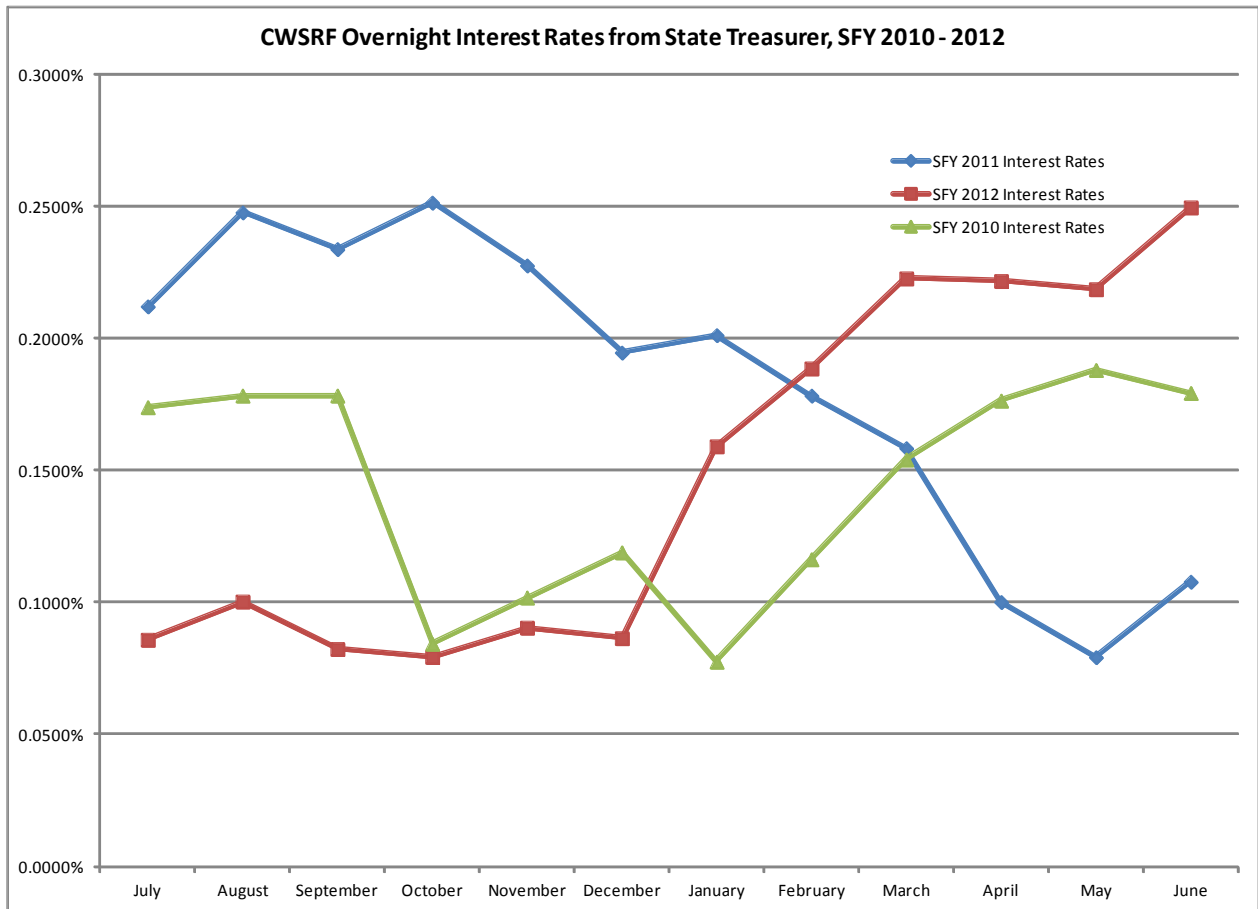


**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

**Economic Factors Effecting Fund Resources for Future Use**

A recurring economic condition affecting the NM CWSRF is the reduction in state funds grants in response to the current economic conditions and limited growth in state appropriations, and the depletion of fund balance. This includes water and wastewater projects. As a basis for comparison, in SFY 2007 the state appropriated approximately \$24.6 million for wastewater projects. The amount dropped to \$8.9 million in the SFY 2008 legislative session, \$2.3 in SFY 2009, and \$0.9 in both SFY 2010 and SFY 2011. In SFY 2012, the state appropriation for wastewater projects increased modestly to \$3.3 million, which is only 13% of the SFY 2007 peak. Grant funding for projects appears to be a way of the past, highlighting the importance of the low-interest loans available from the CWSRF. The new CWSRF borrowers were most likely affected by this reduction in grant funding at the state level, while the subsidies mandated in the federal appropriations have allowed their projects to move forward.

Overnight interest earned on cash balances deposited with the State Treasurer's Office continued to earn only marginal amounts, but did end the year at the peak for the last 3 years. The chart below compares the rate of return earned by month for SFY 2010-2012.

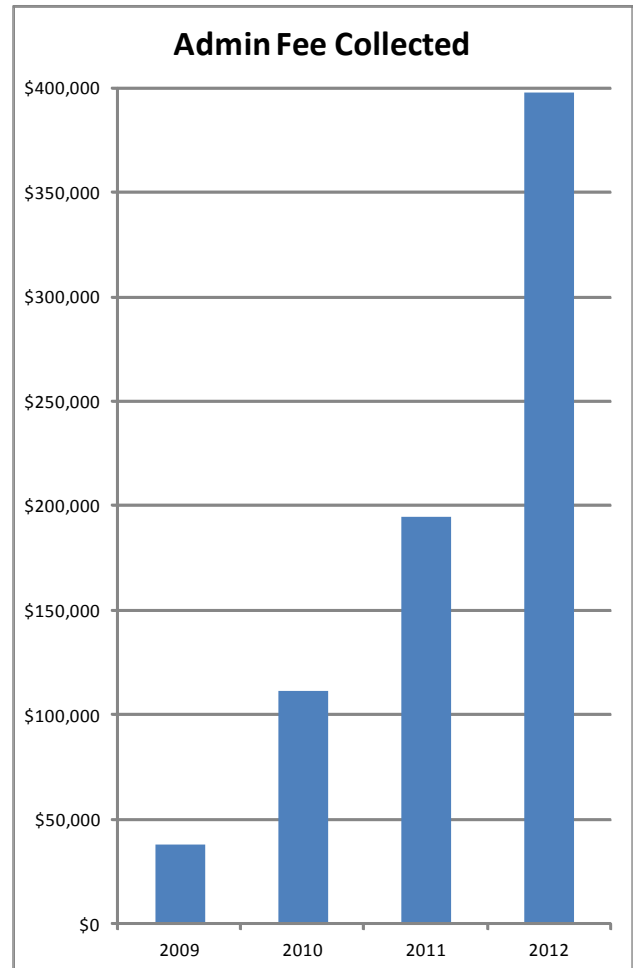


**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Currently Known Facts, Decisions or Conditions that are Expected to Have a Significant Effect on the Financial Position or Results of Operations**

The CWSRF Administrative Fee is collected from loan repayments, as a percentage of outstanding principal. The chart at the right shows the annual amount of fee collected and deposited in Fund 32700 since SFY 2009, when the first loan that included the fee went into repayment.

Until this legislation was passed in 2007, New Mexico was one of the few CWSRF programs in the country without this added funding mechanism to support the program. These funds have supported additional staff for the program, increasing transparency and accountability of these state and federal funds.



**Requests for Information**

This financial report is designed to provide a general overview of the CWSRF Program's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Loan Manager, Construction Programs Bureau, PO Box 5469, Santa Fe, NM 87505.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
STATEMENTS OF NET ASSETS  
June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current:		
Investment in state general fund investment pool	\$ 85,564,659	\$ 71,892,507
Receivables:		
Interest on loans	1,666,393	1,745,406
Due from other state agencies	16,896	6,248
Due from federal government	38,638	9,494
Due from other governmental fund (06400)	33,655	220,676
Loan receivables:		
Current portion of completed projects, net of origination fees	<u>9,370,224</u>	<u>10,684,292</u>
Total current assets	<u>96,690,465</u>	<u>84,558,623</u>
Loan receivables:		
Non-current portion of projects in progress	14,863,168	4,098,415
Non-current portion of completed projects, net of origination fees	<u>140,076,613</u>	<u>151,347,049</u>
Total long-term assets	<u>154,939,781</u>	<u>155,445,464</u>
<b>TOTAL ASSETS</b>	<u>\$ 251,630,246</u>	<u>\$ 240,004,087</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 7	\$ 399
Due to other governmental fund (06400)	19,404	44,984
Accrued liabilities	<u>-</u>	<u>4,985</u>
Total liabilities	19,411	50,368
<b>NET ASSETS</b>		
Restricted - expendable	<u>251,610,835</u>	<u>239,953,719</u>
Total net assets	<u>251,610,835</u>	<u>239,953,719</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 251,630,246</u>	<u>\$ 240,004,087</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Interest on loans	\$ 3,398,882	\$ 3,562,810
Interest on investments	117,001	118,696
Debt service fees	<u>397,669</u>	<u>195,038</u>
Total operating revenues	<u>3,913,552</u>	<u>3,876,544</u>
<b>OPERATING EXPENSES</b>		
Transfers - (06400) Administrative expenses	207,745	307,124
Administrative expenses (Cap grant)	<u>293,978</u>	<u>441,218</u>
Total operating expenses	<u>501,723</u>	<u>748,342</u>
<b>OPERATING INCOME</b>	3,411,829	3,128,202
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Federal award program grants	10,104,882	17,255,276
Grants to other organizations	(1,859,595)	(14,057,460)
Bond proceeds	<u>-</u>	<u>660,000</u>
Total non-operating revenues	<u>8,245,287</u>	<u>3,857,816</u>
<b>INCOME AFTER TOTAL NON-OPERATING REVENUES</b>	<u>11,657,116</u>	<u>6,986,018</u>
<b>CHANGE IN NET ASSETS</b>	11,657,116	6,986,018
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>239,953,719</u>	<u>232,967,701</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 251,610,835</u>	<u>\$ 239,953,719</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Cash received on repayment of loan principal	\$ 12,877,947	\$ 6,812,855
Cash received on interest from loans	3,477,895	3,201,223
Interest payments received from State Treasurer's Office	106,354	121,469
Cash received for debt service fees	397,669	195,038
Cash payments for administrative expenses (Admin fund-32700)	(20,724)	(854,748)
Cash payments for administrative expenses (Cap grant)	(324,936)	(412,794)
Cash payments made to borrowers	(11,058,196)	(5,074,384)
Net cash provided by operating activities	5,456,009	3,988,659
<b>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grant proceeds - EPA	10,075,738	18,146,522
Grants to other organizations	(1,859,595)	(14,417,707)
Bond proceeds	-	660,000
Net cash provided by (used in) capital and related activities	8,216,143	4,388,815
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	13,672,152	8,377,474
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	71,892,507	63,515,033
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 85,564,659	\$ 71,892,507

	<u>2012</u>	<u>2011</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income	\$ 3,411,829	\$ 3,128,202
Adjustments to operating income:		
Administrative expenses		
(change in cap grant receivable-06400)	-	-
Change in assets and liabilities:		
Interest on loans receivable	79,013	1,082,205
Due from other state agencies	(10,648)	2,773
Loan receivables	1,819,751	294,679
Accounts payable	(392)	399
Due to other governmental fund (06400)	(25,580)	(285,364)
Due from other governmental fund (06400)	187,021	(220,676)
Accrued liabilities	<u>(4,985)</u>	<u>(13,559)</u>
Total reconciling adjustments	<u>2,044,180</u>	<u>860,457</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 5,456,009</u>	<u>\$ 3,988,659</u>

The accompanying notes are an integral part of the financial statements.



**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT**  
**CLEAN WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

**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 and development of estuary conservation and management plans. Loans made by the Fund must be repaid within 20 years and all repayments, including interest and principal, 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 percent 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), which may include water quality planning and water quality analysis and protection studies if authorized by the Department and, if necessary, the EPA. 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.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

**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 accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The GASB has issued Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*; and Statement 38 - *Certain Financial Statement Note Disclosures*. These statements establish financial reporting requirements for state and local governments throughout the United States. 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. The Fund had to implement these standards for the fiscal year ended June 30, 2002. With the implementation of GASB Statement 34, the Department has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements. 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. The Fund applies all applicable Financial Accounting Standard Board pronouncements issued prior to November 30, 1989 for accounting and reporting of its operation in accordance with GASB 20.

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 in connection with 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.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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June 30, 2012 and 2011**

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

**Net Assets**

The Fund Financial Statements utilize a net asset presentation. Net assets are categorized as investment in capital assets, restricted and unrestricted. There is no investment in capital assets or unrestricted net assets at June 30, 2012.

**Restricted net assets** – net assets should be reported as restricted when constraints placed on net asset 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 assets are restricted by enabling legislation at June 30, 2012. Net assets are restricted for future loans for waste water projects and the administration of the Fund.

**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, 2012 was \$85,564,659. 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, 2012.

**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.

**Due From Other State Agencies**

Amounts due from other state agencies represents earned interest on the investment in the state general fund investment pool as is due from the State Treasurer's Office (39400) fund 80100.

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

**Loans Receivable**

With the exception of the ARRA funds awarded to the Fund and granted to various communities, the Fund is operated as a direct loan program, whereby the total loan amount made to communities is funded 80 percent by the Federal capitalization grant and 20 percent by the state matching amount. 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 set at .4356% and will be an annual fee collected with the borrower's annual payment.

**State Matching Funds**

The 20 percent required state match has been funded from severance tax and revenue bond proceeds for certain grant years. Bond revenue is recognized at the time all eligibility requirements will be met.

**Budgets**

Loan activities are not subject to a budget. For the federal grant awards received under the American Recovery Reinvestment Act (ARRA), a state legally adopted budget was prepared and approved. In addition, 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 and the budgetary comparisons are presented in the Department's financial statements.

**Subsequent Events**

Management evaluated subsequent events through December 10, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to December 10, 2012, that provided additional evidence about conditions that existed at June 30, 2012 have been recognized in the financial statements for the year ended June 30,

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

June 30, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2012.

**NOTE 3 - STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED**

In June 2012, an independent expert diagnostic report revealed that the State General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx). The document title is, "Current State Diagnostic of Cash Control".

The State General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the State General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Fund's balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. It is the understanding of Management that these changes will allow for the completion of a timely and accurate reconciliation on a point-forward basis only. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

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**NOTE 3 - STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED (CONTINUED)**

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the State General Fund Investment Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

**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. The non-current portion is due in subsequent years.

At June 30, 2012, there are no delinquent loans outstanding and management has determined there is no allowance for uncollectible accounts required. Loans receivable as of June 30, 2012 and 2011, respectively, consist of the following:

	<u>2012</u>	<u>2011</u>
Loans – projects in progress	\$ 14,863,168	\$ 4,098,415
Accrued interest	<u>198,894</u>	<u>28,456</u>
Total assets	<u>\$ 15,062,062</u>	<u>\$ 4,126,871</u>
Loans in repayment – completed projects	\$ 149,446,837	\$ 162,031,341
Accrued interest	<u>1,467,499</u>	<u>1,716,950</u>
Total assets	<u>\$ 150,914,336</u>	<u>\$ 163,748,291</u>

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 four 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 \$2,500 to \$1,921,489 through June 3, 2032.

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

**Projects in Progress**

The balances of projects in progress at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Community:		
City of Carlsbad	\$ 12,359,329	\$ 2,505,297
City of Rio Rancho	1,443,524	308,961
Town of Taos	1,000,000	1,000,000
Sandoval County/Cuba	30,315	-
Village of Questa	30,000	30,000
Village of Eagle Nest	-	191,655
San Miguel County	-	62,502
<b>Total</b>	<u>\$ 14,863,168</u>	<u>\$ 4,098,415</u>

**Completed Projects**

The balances of completed projects at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Community:		
Hobbs	\$ 30,125,994	\$ 31,419,101
Los Lunas	22,025,637	23,192,258
Los Alamos County	13,496,680	14,055,681
Las Vegas	13,343,843	14,113,278
Farmington	10,765,125	11,376,818
Clovis	7,256,930	7,638,632
Albuquerque	6,882,353	7,310,192
Española	6,762,071	7,242,013
Rio Rancho	6,521,861	7,016,240
Lovington	5,330,613	5,574,682
Aztec	4,370,220	4,584,317
Dona Ana County	4,142,980	4,345,945
Belen	2,423,864	2,754,482
Gallup	2,353,755	2,707,041
Grants	2,289,193	2,644,973
Bloomfield	2,127,905	2,256,137
Silver City	1,651,013	1,903,297
Taos Ski Valley	1,317,374	1,386,141
Bayard	1,144,347	1,205,822
Ruidoso	978,637	1,050,173
City of Socorro	889,390	1,020,868
Albuquerque – Compost	551,385	1,606,442

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

	<u>2012</u>	<u>2011</u>
Community:		
Santa Rosa	475,000	500,000
Elephant Butte	447,410	466,614
Logan	343,695	361,784
Dona Ana	330,660	374,265
Eagle Nest	199,978	-
Estancia	135,000	180,000
Raton	110,504	115,247
Wagon Mound	97,380	102,506
Ruidoso Downs	95,884	100,000
Tucumcari	95,000	100,000
Ruidoso Village	93,509	97,386
San Miguel	93,465	-
CRRUA/Sunland Park	59,333	88,560
Hatch	47,500	50,000
Willard	39,294	42,361
Ya-Ta-Hey W&SD	32,055	37,398
Albuquerque – Nitro	-	2,994,416
Pecos	-	<u>16,271</u>
<b>Total</b>	<u>\$ 149,446,837</u>	<u>\$ 162,031,341</u>

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

Years ending June 30:

2013	\$ 12,795,802
2014	12,219,627
2015	12,189,514
2016	12,126,505
2017	12,144,514
2018 and thereafter	<u>118,408,844</u>
<b>Total</b>	<u>\$ 179,884,806</u>

**NOTE 5 - LOAN COMMITMENTS**

As of June 30, 2012, the Fund executed binding commitments to disburse loans from the Fund in the amount of \$5,188,443.



**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**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, 2012 that have been allocated to the Fund since its inception.

<u>Award Year</u>	<u>Federal Capitalization Grants</u>	<u>State Matching Appropriations</u>
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	<u>7,222,000</u>	<u>1,444,400</u>
<b>Total</b>	<b><u>\$ 158,957,448</u></b>	<b><u>\$ 33,641,615</u></b>

As of June 30, 2012, the State of New Mexico has overmatched the Fund by \$1,850,125. This overmatch will be applied to future federal grant awards as part of the 20 percent required match. In addition, the Fund was awarded \$23,789,100 in ARRA funds not subject to the 20 percent state match.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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June 30, 2012 and 2011**

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

Federal grants awarded through June 30, 2012 and still available or committed to the Fund for loans are as follows:

<u>Award Year</u>	<u>2012</u>	<u>2011</u>
2009	\$ -	\$ -
2010	-	1,994,485
2011	2,437,422	10,408,463
2012	<u>7,222,000</u>	<u>-</u>
<b>Total</b>	<u>\$ 9,659,422</u>	<u>\$ 12,402,948</u>

Included in award year 2012 is a federal grant in the amount of \$7,222,000 awarded in February 2012.

**NOTE 7 - ADMINISTRATIVE EXPENSES**

Since the inception of the Fund, administrative expenses have been drawn from the federal capitalization grant allotments of 100 percent, 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 percent and from the State matching appropriations at 16.7 percent. 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 percent from the federal capitalization grant allotments and make this retroactive to inception. As of June 30, 2008, administrative expenses were drawn down 100 percent 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 percent federal capitalization grants and 16.7 percent State of New Mexico.

The Fund has drawn \$6,555,757 in administrative costs since its inception. This amount is within the 4% limit imposed by the EPA capitalization grants.

**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.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**NOTE 8 – CONTINGENCIES (CONTINUED)**

**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.

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

On a quarterly basis, the Fund's management provides the EPA with its estimate of binding loan commitments that are anticipated to be made over the next twelve months. Based on this estimate, the EPA releases amounts from the capitalization grants to the ACH.

As of June 30, 2012, there is a balance at the ACH for funds released but not yet loaned for construction projects that is not recognized as earned by the Fund. Balances at the ACH at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 2,400,948	\$ 17,267,537
Amounts released to ACH during year	10,002,000	3,274,300
Drawdowns for loans	(7,907,934)	(2,756,598)
Drawdowns for administrative expenses	(142,126)	(125,281)
Amounts released to ACH during year (ARRA)	-	-
Drawdowns for grants/administrative expenses (ARRA)	<u>(1,994,485)</u>	<u>(15,259,010)</u>
<b>Total</b>	<u>\$ 2,358,403</u>	<u>\$ 2,400,948</u>

**NOTE 10 - RESTRICTED NET ASSETS**

Restricted net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Restricted for future loans:		
Federal capitalization grants	\$ 143,308,427	\$ 135,678,122
State matching appropriations	33,641,615	32,197,215
Interest and other	<u>74,660,793</u>	<u>72,078,382</u>
<b>Total</b>	<u>\$ 251,610,835</u>	<u>\$ 239,953,719</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**NOTE 11 - ACCRUED INTEREST RECEIVABLE**

Changes in accrued interest receivable are as follows:

	<u>Amount Increase (Decrease)</u>	
	<u>2012</u>	<u>2011</u>
Beginning of year	\$ 1,745,406	\$ 2,827,611
Interest earned	3,398,882	3,562,810
Interest received	(3,477,895)	(3,201,223)
Interest rolled	<u>-</u>	<u>(1,443,792)</u>
<b>End of year</b>	<b><u>\$ 1,666,393</u></b>	<b><u>\$ 1,745,406</u></b>

**NOTE 12 - AMERICAN RECOVERY REINVESTMENT ACT (ARRA)**

The Fund was awarded a total of \$23,789,100 in ARRA funds with a project period of October 1, 2008 through September 30, 2015. The Fund started drawing on the award during state fiscal year 2010. As of February 17, 2010, the Fund had granted the entire ARRA award to 17 communities with whom contracts had been entered into. As of June 30, 2012, a total of \$0 remained available to draw.

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTAL INFORMATION**

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENTS OF NET ASSETS BY FUNCTIONAL ACTIVITIES  
June 30, 2012**

	<b>Revolving Loan Fund 12100</b>	<b>Administrative Fund 32700</b>	<b>Total</b>
<b>ASSETS</b>			
Current:			
Investment in state general fund investment pool	\$ 84,854,118	\$ 710,541	\$ 85,564,659
Receivables:			
Interest on loans	1,666,393	-	1,666,393
Due from other state agencies	16,753	143	16,896
Due from federal government	38,638	-	38,638
Due from other governmental fund (06400)	-	33,655	33,655
Loan receivables:			
Current portion of completed projects, net of origination fees	9,370,224	-	9,370,224
Total current assets	95,946,126	744,339	96,690,465
Loan receivables:			
Non-current portion of projects in progress	14,863,168	-	14,863,168
Non-current portion of completed projects, net of origination fees	140,076,613	-	140,076,613
Total long-term assets	154,939,781	-	154,939,781
<b>TOTAL ASSETS</b>	<b>\$ 250,885,907</b>	<b>\$ 744,339</b>	<b>\$ 251,630,246</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 7	\$ -	\$ 7
Due to other governmental fund (06400)	19,404	-	19,404
Accrued liabilities	-	-	-
Total liabilities	19,411	-	19,411
<b>NET ASSETS</b>			
Restricted - expendable	250,866,496	744,339	251,610,835
Total net assets	250,866,496	744,339	251,610,835
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 250,885,907</b>	<b>\$ 744,339</b>	<b>\$ 251,630,246</b>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENTS OF NET ASSETS BY FUNCTIONAL ACTIVITIES  
June 30, 2011**

	<b>Revolving Loan Fund 12100</b>	<b>Administrative Fund 32700</b>	<b>Total</b>
<b>ASSETS</b>			
Current:			
Investment in state general fund investment pool	\$ 71,559,605	\$ 332,902	\$ 71,892,507
Receivables:			
Interest on loans	1,745,406	-	1,745,406
Due from other state agencies	6,220	28	6,248
Due from federal government	9,494	-	9,494
Due from other governmental fund (06400)	-	220,676	220,676
Loan receivables:			
Current portion of completed projects, net of origination fees	<u>10,684,292</u>	<u>-</u>	<u>10,684,292</u>
Total current assets	<u>84,005,017</u>	<u>553,606</u>	<u>84,558,623</u>
Loan receivables:			
Non-current portion of projects in progress	4,098,415	-	4,098,415
Non-current portion of completed projects, net of origination fees	<u>151,347,049</u>	<u>-</u>	<u>151,347,049</u>
Total long-term assets	<u>155,445,464</u>	<u>-</u>	<u>155,445,464</u>
<b>TOTAL ASSETS</b>	<u>\$ 239,450,481</u>	<u>\$ 553,606</u>	<u>\$ 240,004,087</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 399	\$ -	\$ 399
Due to other governmental fund (06400)	44,984	-	44,984
Accrued liabilities	<u>4,985</u>	<u>-</u>	<u>4,985</u>
Total liabilities	<u>50,368</u>	<u>-</u>	<u>50,368</u>
<b>NET ASSETS</b>			
Restricted - expendable	<u>239,400,113</u>	<u>553,606</u>	<u>239,953,719</u>
Total net assets	<u>239,400,113</u>	<u>553,606</u>	<u>239,953,719</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 239,450,481</u>	<u>\$ 553,606</u>	<u>\$ 240,004,087</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS BY FUNCTIONAL ACTIVITIES  
Year Ended June 30, 2012**

	<b>Revolving Loan Fund 12100</b>	<b>Administration Fund 32700</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Interest on loans	\$ 3,398,882	\$ -	\$ 3,398,882
Interest on investments	116,192	809	117,001
Debt service fees	<u>-</u>	<u>397,669</u>	<u>397,669</u>
Total operating revenues	<u>3,515,074</u>	<u>398,478</u>	<u>3,913,552</u>
<b>OPERATING EXPENSES</b>			
Transfers (06400) Admin expenses	-	207,745	207,745
Administrative expenses (Cap grant)	<u>293,978</u>	<u>-</u>	<u>293,978</u>
Total operating expenses	<u>293,978</u>	<u>207,745</u>	<u>501,723</u>
<b>OPERATING INCOME</b>	3,221,096	190,733	3,411,829
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Federal award program grants	10,104,882	-	10,104,882
Grants to other organizations	(1,859,595)	-	(1,859,595)
Bond proceeds	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating revenues	<u>8,245,287</u>	<u>-</u>	<u>8,245,287</u>
<b>INCOME AFTER TOTAL NON-OPERATING REVENUES</b>	<u>11,466,383</u>	<u>190,733</u>	<u>11,657,116</u>
<b>CHANGE IN NET ASSETS</b>	11,466,383	190,733	11,657,116
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>239,400,113</u>	<u>553,606</u>	<u>239,953,719</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 250,866,496</u>	<u>\$ 744,339</u>	<u>\$ 251,610,835</u>



**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS BY FUNCTIONAL ACTIVITIES  
Year Ended June 30, 2011**

	<b>Revolving Loan Fund 12100</b>	<b>Administration Fund 32700</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Interest on loans	\$ 3,562,810	\$ -	\$ 3,562,810
Interest on investments	117,237	1,459	118,696
Debt service fees	<u>-</u>	<u>195,038</u>	<u>195,038</u>
Total operating revenues	<u>3,680,047</u>	<u>196,497</u>	<u>3,876,544</u>
<b>OPERATING EXPENSES</b>			
Transfers (06400) Admin expenses	-	307,124	307,124
Administrative expenses (Cap grant)	<u>441,218</u>	<u>-</u>	<u>441,218</u>
Total operating expenses	<u>441,218</u>	<u>307,124</u>	<u>748,342</u>
<b>OPERATING INCOME</b>	3,238,829	(110,627)	3,128,202
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Federal award program grants	17,255,276	-	17,255,276
Grants to other organizations	(14,057,460)	-	(14,057,460)
Bond proceeds	<u>660,000</u>	<u>-</u>	<u>660,000</u>
Total non-operating revenues	<u>3,857,816</u>	<u>-</u>	<u>3,857,816</u>
<b>INCOME AFTER TOTAL NON-OPERATING REVENUES</b>	<u>7,096,645</u>	<u>(110,627)</u>	<u>6,986,018</u>
<b>CHANGE IN NET ASSETS</b>	7,096,645	(110,627)	6,986,018
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>232,303,468</u>	<u>664,233</u>	<u>232,967,701</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 239,400,113</u>	<u>\$ 553,606</u>	<u>\$ 239,953,719</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENTS OF CASH FLOWS  
Year Ended June 30, 2012**

	<b>Revolving Loan Fund 12100</b>	<b>Administration Fund 32700</b>	<b>Total</b>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>			
<b>OPERATING ACTIVITIES</b>			
Cash received on repayment of loan principal	\$ 12,877,947	\$ -	\$ 12,877,947
Cash received on interest from loans	3,477,895	-	3,477,895
Interest payments received from State Treasurer's Office	105,660	694	106,354
Cash received for debt service fees	-	397,669	397,669
Cash payments for administrative expenses (Admin fund-32700)	-	(20,724)	(20,724)
Cash payments for administrative expenses (Cap grant)	(324,936)	-	(324,936)
Cash payments made to borrowers	(11,058,196)	-	(11,058,196)
Net cash provided by operating activities	5,078,370	377,639	5,456,009
<b>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Grant proceeds - EPA	10,075,738	-	10,075,738
Grants to other organizations	(1,859,595)	-	(1,859,595)
Bond proceeds	-	-	-
Net cash provided by (used in) capital and related activities	8,216,143	-	8,216,143
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	13,294,513	377,639	13,672,152
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	71,559,605	332,902	71,892,507
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 84,854,118	\$ 710,541	\$ 85,564,659

	<b>Revolving Loan Fund 12100</b>	<b>Administration Fund 32700</b>	<b>Total</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income	\$ 3,221,096	\$ 190,733	\$ 3,411,829
Adjustments to operating income:			
Change in assets and liabilities:			
Interest on loans receivable	79,013	-	79,013
Due from other state agencies	(10,533)	(115)	(10,648)
Loan receivables	1,819,751	-	1,819,751
Accounts payable	(392)	-	(392)
Due to other governmental fund (06400)	(25,580)	-	(25,580)
Due from other governmental fund (06400)	-	187,021	187,021
Accrued liabilities	(4,985)	-	(4,985)
Total reconciling adjustments	<u>1,857,274</u>	<u>186,906</u>	<u>2,044,180</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 5,078,370</u>	<u>\$ 377,639</u>	<u>\$ 5,456,009</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENTS OF CASH FLOWS  
Year Ended June 30, 2011**

	<b>Revolving Loan Fund 12100</b>	<b>Administration Fund 32700</b>	<b>Total</b>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>			
<b>OPERATING ACTIVITIES</b>			
Cash received on repayment of loan principal	\$ 6,812,855	\$ -	\$ 6,812,855
Cash received on interest from loans	3,201,223	-	3,201,223
Interest payments received from State Treasurer's Office	119,832	1,637	121,469
Cash received for debt service fees	-	195,038	195,038
Cash payments for administrative expenses (Admin fund-32700)	-	(854,748)	(854,748)
Cash payments for administrative expenses (Cap grant)	(412,794)	-	(412,794)
Cash payments made to borrowers	(5,074,384)	-	(5,074,384)
Net cash provided by operating activities	4,646,732	(658,073)	3,988,659
<b>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Grant proceeds - EPA	18,146,522	-	18,146,522
Grants to other organizations	(14,417,707)	-	(14,417,707)
Bond proceeds	660,000	-	660,000
Net cash provided by (used in) capital and related activities	4,388,815	-	4,388,815
<b>CASH FLOWS PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES</b>			
Net cash provided by (used in) non-capital financing activities	1,411,395	(1,411,395)	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	10,446,942	(2,069,468)	8,377,474
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	61,112,663	2,402,370	63,515,033
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 71,559,605	\$ 332,902	\$ 71,892,507

	<b>Revolving Loan Fund 12100</b>	<b>Administration Fund 32700</b>	<b>Total</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income	\$ 3,238,829	\$ (110,627)	\$ 3,128,202
Adjustments to operating income:			
Change in assets and liabilities:			
Interest on loans receivable	1,082,205	-	1,082,205
Due from other state agencies	2,595	178	2,773
Loan receivables	294,679	-	294,679
Accounts payable	399	-	399
Due to other governmental fund (06400)	41,584	(326,948)	(285,364)
Due from other governmental fund (06400)	-	(220,676)	(220,676)
Accrued liabilities	<u>(13,559)</u>	<u>-</u>	<u>(13,559)</u>
Total reconciling adjustments	<u>1,407,903</u>	<u>(547,446)</u>	<u>860,457</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 4,646,732</u>	<u>\$ (658,073)</u>	<u>\$ 3,988,659</u>

**SINGLE AUDIT**

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT**  
**CLEAN WATER STATE REVOLVING FUND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 June 30, 2012

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>		
<b>Capitalization Grants for Clean Water State Revolving Funds:</b>		
Construction Loan, Construction/Administration - CS350002-10	66.458	\$ 386,788
Construction Loan, Construction/Administration - CS350002-11	66.458	7,733,103
ARRA - 2009 NM CWSRF - 2W-96689201	66.458	<u>1,984,991</u>
		<u>10,104,882</u>
Total U.S. Environmental Protection Agency		<u>10,104,882</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 10,104,882</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2012**

**GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Fund.

**BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Fund's general purpose statements.

**NON-CASH ASSISTANCE**

The Fund did not receive any federal non-cash assistance during the year ended June 30, 2012.

**LOANS**

The Fund does not have any loans outstanding with the Federal government at June 30, 2012.

**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 must be paid within 20 years and all repayments, including interest and principal, must remain within the Wastewater Facility Construction Loan Fund of the Fund. Capitalization loans processed for CWSRF for the year ended June 30, 2012 were \$11,058,196. CWSRF outstanding loans at June 30, 2012 were \$164,310,005. In addition, as detailed in the schedule below, the Fund provided \$1,859,595 in ARRA funding to various communities throughout New Mexico as grants and are included in the schedule as ARRA-2009 NM CWSRF (CFDA 66.458).

<u>Community</u>	<u>Amount</u>
Town of Taos	\$ 931,709
Questa	709,663
Eagle Nest	153,817
San Miguel County	<u>64,406</u>
<b>Total</b>	<b><u>\$ 1,859,595</u></b>



**Independent Auditors' 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***

State of New Mexico Environment Department  
Clean Water State Revolving Fund  
Santa Fe, New Mexico

We have audited the statement of net assets of the Clean Water State Revolving Fund (the Fund) of the State of New Mexico Environment Department (the Department) as of June 30, 2012, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. We have also audited the combining statement of net assets by functional activities and the combining statement of revenues, expenses and changes in fund net assets by functional activities as of and for the year ended June 30, 2012 presented as supplemental information, as listed in the table of contents and have issued our report thereon dated December 10, 2012. 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.

**Internal Control over Financial Reporting**

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

*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 Fund's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted no other matters that are required to be reported pursuant to *Government Auditing Standards*, paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978.

This report is intended solely for the information and use of management, others within the Fund, the State of New Mexico Office of the State Auditor, the New Mexico Legislature, the Department of Finance and Administration, and the Environmental Protection Agency, and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Albuquerque, New Mexico  
December 10, 2012

**Independent Auditors' Report on Compliance with Requirements That  
Could Have a Direct and Material Effect on the Major Federal Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133**

State of New Mexico Environment Department  
Clean Water State Revolving Fund  
Santa Fe, New Mexico

**Compliance**

We have audited the compliance of the Clean Water State Revolving Fund (the Fund) of the State of New Mexico Environment Department (the Department) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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. Our audit does not provide a legal determination of the Fund's compliance with those requirements.

In our opinion, the Fund complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

**Internal Control over Compliance**

The management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with the requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an

opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the Fund, the New Mexico Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Albuquerque, New Mexico  
December 10, 2012

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2012**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified

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 program:

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

Type of auditors' report issued on compliance for the major federal program: Unqualified

Any audit findings, disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of the major federal program:

**CFDA**

**Number(s)**

**Name of Federal Program or Cluster**

66.458

Capitalization Grants for Clean Water State Revolving Funds

The threshold for the Department for distinguishing Type A and B programs, as well as the low-risk auditee determination status, is included in the Department's schedule of findings and questioned costs.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012**

**Section II – Financial Statement Findings**

There were no findings for the year ended June 30, 2012.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings for the year ended June 30, 2012.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
AND QUESTIONED COSTS  
June 30, 2012**

**Section II – Financial Statement Findings**

There were no findings for the year ended June 30, 2011.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings for the year ended June 30, 2011.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
EXIT CONFERENCE  
June 30, 2012**

An exit conference was held with the Department on December 10, 2012. The conference was held at the Department's offices in Santa Fe, New Mexico. In attendance were:

**NEW MEXICO ENVIRONMENT DEPARTMENT**

Cathy Atencio	ASD Director (Acting)
Vince Lithgow, CGFM	Chief Financial Officer
Marlene Cordova	General Ledger Manager
Alysia Leavitt	CWSRF/RIP Loan Manager
Mary Montoya	Chief Information Officer (Acting)
Tom Blaine	Field Operations and Infrastructure Division Director
Mary E. Rose	Environmental Protection Division Director (Acting)
Jim Davis	Resource Protection Division Director

**CLIFTONLARSONALLEN LLP**

Janet Pacheco-Morton, CPA, CGFM, Partner  
Matt Bone, CPA, CGFM, Manager

**PREPARATION OF FINANCIAL STATEMENTS**

The financial statements presented in this report have been prepared by the management of the Fund with the assistance of CliftonLarsonAllen LLP. However, they are the responsibility of management, as addressed in the Independent Auditors' Report.