

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

**FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

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## INDEPENDENT AUDITORS' REPORT

Mr. Ryan Flynn  
State of New Mexico Environment Department and  
Mr. Hector H. Balderas  
New Mexico State Auditor

### **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 years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents. We have also audited the combining statements of net position by functional activities, the combining statements of revenues, expenses and changes in fund net position by functional activities and 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 years ended June 30, 2013 and 2012, as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions 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 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. 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, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 net position by functional activities, the combining statements of revenues, expenses and changes in fund net position by functional activities and combining statements of cash flows of the Fund as of and for the years ended June 30, 2013 and 2012, in accordance with accounting principles generally accepted in the United States of America.

### **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 11 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 audits 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.

#### ***Other Information***

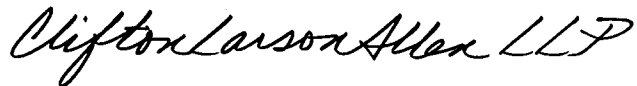
Our audits were conducted for the purpose of forming opinions on the financial statements and the combining and individual fund financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and 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 December 5, 2013, 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.

**CliftonLarsonAllen LLP**

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Albuquerque, New Mexico  
December 5, 2013

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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, 2013 and 2012. 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) 2013, the CWSRF reported a total net position of \$265,368,164, an increase of \$13,757,329 in comparison with the prior year. This 5.5% annual growth demonstrates a growing, healthy fund.
- The CWSRF was awarded one cap grant for the Federal Fiscal Year (FFY) 2012 allotment of \$6,908,000. Cumulative grants since inception total \$189,654,548.
- The CWSRF collected \$11,360,094 in loan repayment principal, \$3,029,068 in loan interest and \$381,614 in administrative fees. Total principal, interest and administrative fees received were \$14,770,776.
- The CWSRF fund earned \$204,633 of interest income on overnight funds deposited at the State Treasurer's Office. This is a 75% increase over the amount earned in SFY 2012.
- Fund 12100 disbursed \$11,431,218 for construction projects in SFY 2013.
- Fund 12100 incurred costs of \$438,666 in administration expenses.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

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

	<u>2013</u>	<u>2012</u>
<b>NET POSITION</b>		
<b>ASSETS</b>		
Current and other assets	\$ 113,043,594	\$ 96,690,465
Non-current assets	<u>154,058,233</u>	<u>154,939,781</u>
<b>TOTAL ASSETS</b>	<u>\$ 267,101,827</u>	<u>\$ 251,630,246</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 1,733,663	\$ 19,411
<b>NET POSITION</b>		
Restricted	<u>265,368,164</u>	<u>251,610,835</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 267,101,827</u>	<u>\$ 251,630,246</u>
<b>CHANGES IN NET POSITION</b>		
Program revenues:		
Interest on loans	\$ 3,354,162	\$ 3,398,882
Investment income	204,633	117,001
Debt Services fees	381,614	397,669
General revenues:		
Federal award grant	9,358,143	10,104,882
State matching funds	2,844,400	-
Grants to other organizations	<u>(1,939,340)</u>	<u>(1,859,595)</u>
Total revenues	14,203,612	12,158,839
Program expenses		
Transfers - (06400) Administrative expenses	(7,617)	(207,745)
Administrative expenses	<u>(438,666)</u>	<u>(293,978)</u>
<b>CHANGE IN NET POSITION</b>	13,757,329	11,657,116
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>251,610,835</u>	<u>239,953,719</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 265,368,164</u>	<u>\$ 251,610,835</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**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 99.5% 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 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 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 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, 2013**

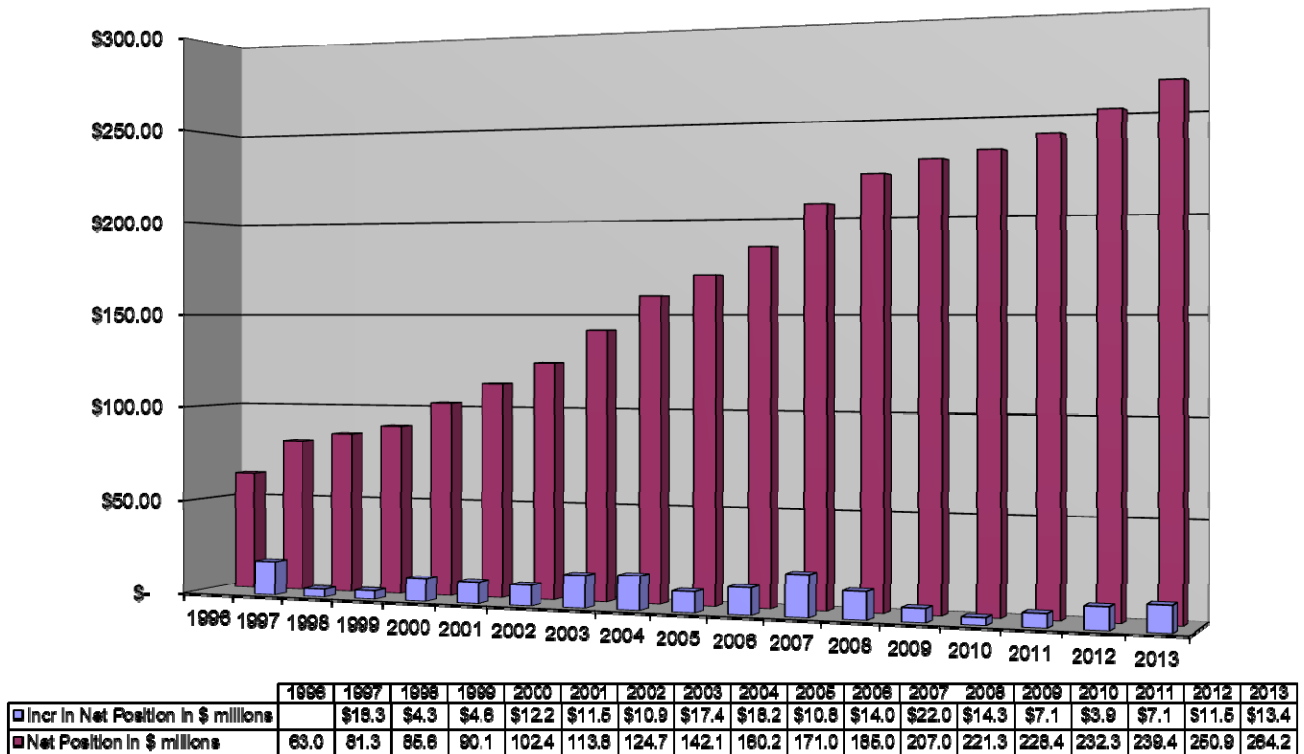
**Analysis of Financial Position and Results in Operation (Excludes Fund 32700)**

The Fund 12100 Statement of Net Position demonstrates that the fund grew by \$13.4 million during SFY 2013. As mentioned previously, a growing fund balance is an indication of a fund's increasing health. 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 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:

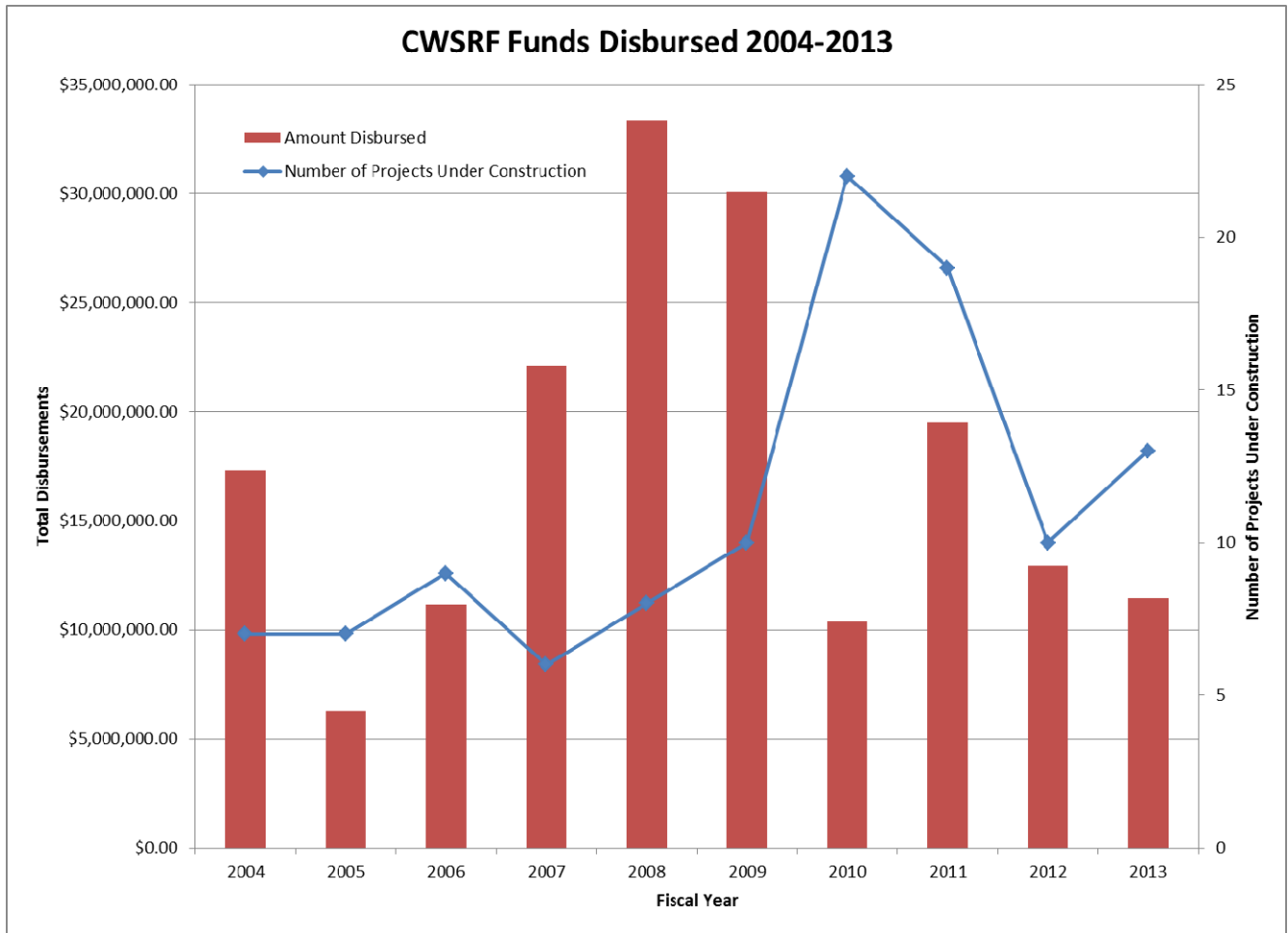
**New Mexico CWSRF Increase in Fund 12100 Net Position  
 (In \$ Millions)**



**Performance**

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2013**

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 during FFY 2012, which includes the first quarter of SFY 2013. The NM CWSRF met and exceeded its expenditure goal by September 30, 2012, closing two grants along the way. As of the end of SFY 2013, the NM CWSRF has fully expended a third grant for the FFY 2010 allotment and expended 96% of the FFY 2011 allotment. The chart below shows that during SFY 2013, the NM CWSRF had 13 projects in process. Historically, this number was only exceeded in activity by the ARRA peak in SFY 2010. The fund disbursed \$11,431,218 to projects during SFY 2013.



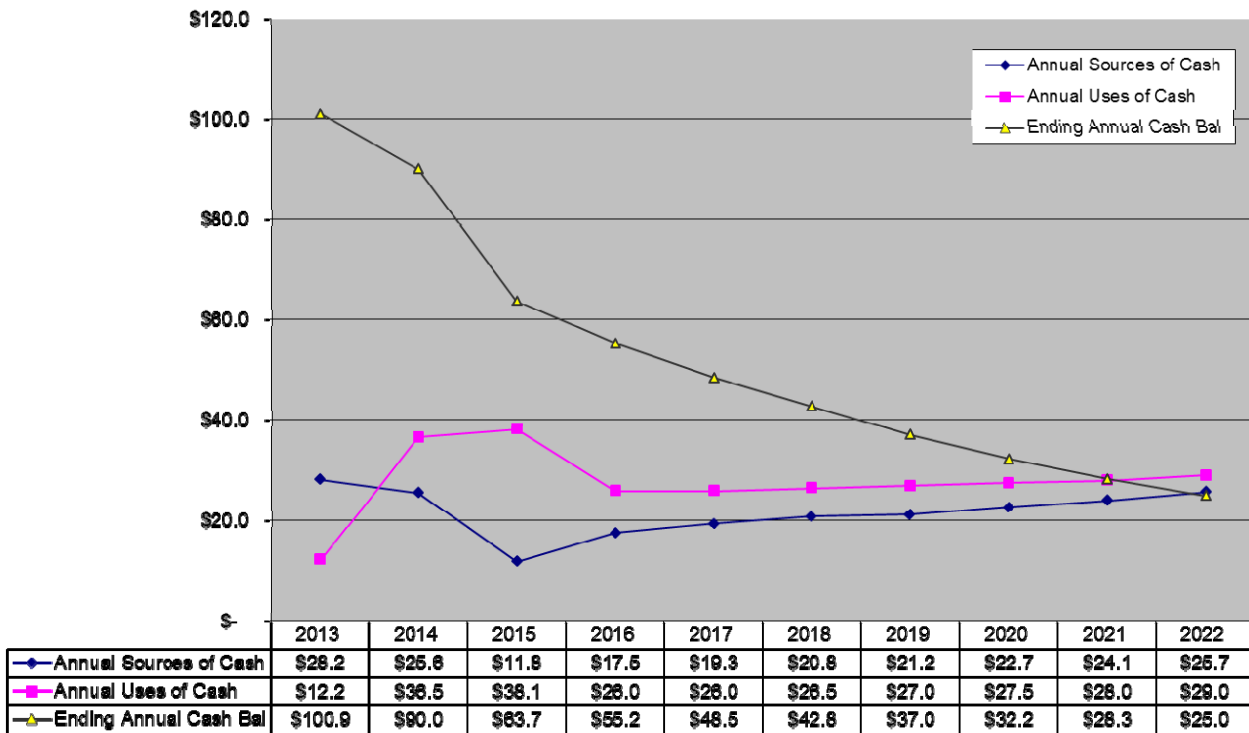
**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2013**

**Projections**

A cash flow model is used as a management tool for the NM CWSRF. 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 (Fund 12100), with the resulting decrease in cash, is shown below:

This model demonstrates that after 2015 and until 2021, the NM CWSRF projects funding levels, which include fund balance, cash inflows and cash outflows, to support projects averaging \$27 million annually. After 2021, ending cash balance is projected to be less than projected outlays.

**New Mexico CWSRF Cash Flow Projection (In \$ millions)  
 Actual data 2013, Projected as of 2014**



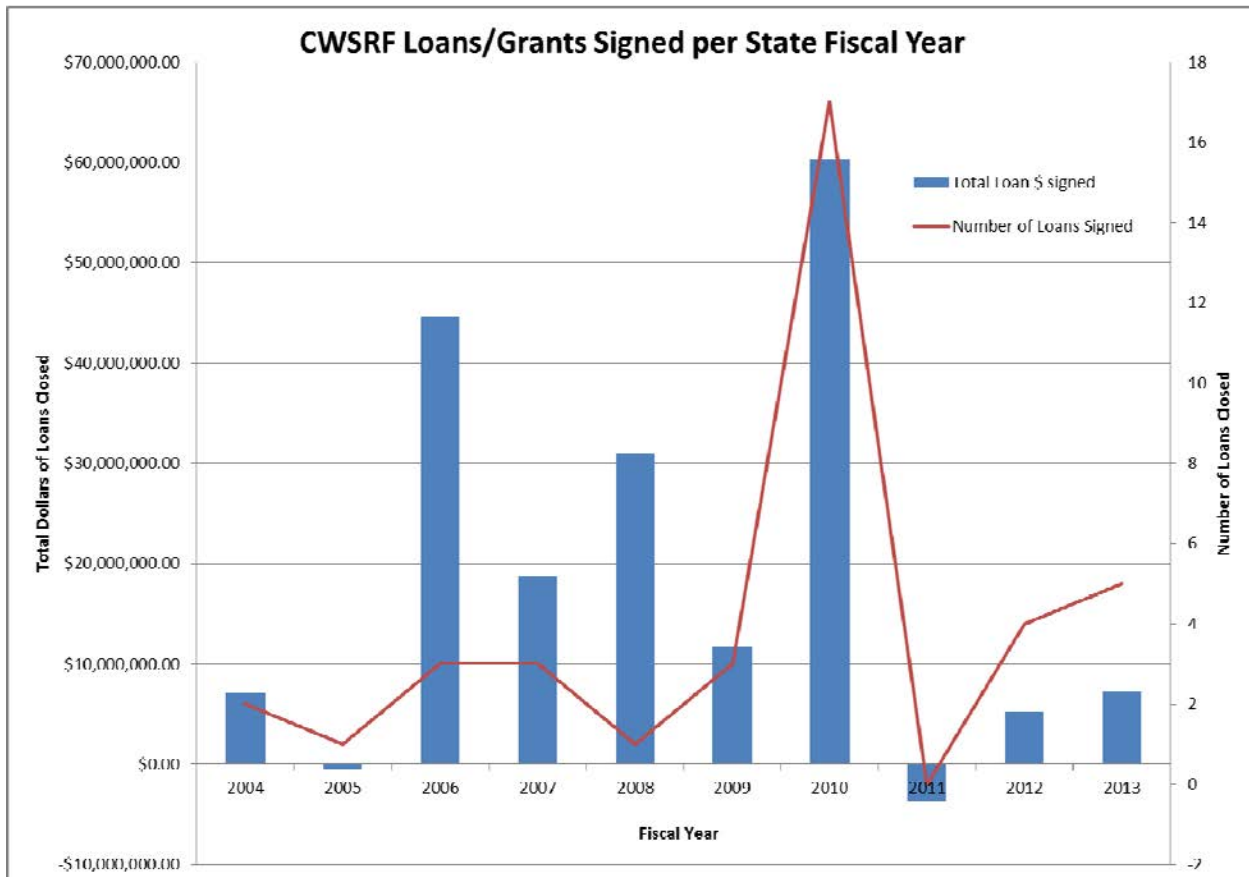
**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2013**

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

As the economy rebounds, the state is increasing grant funding for capital projects through oil and gas revenues. Grant funding for water and wastewater projects has jumped from less than \$1 million in SFY 2010 and SFY 2011, to \$3.3 million in SFY 2012, and over \$18 million in SFY 2013. However, each year's increase in grant funding also results in greater numbers of recipients. In SFY 2013, 90 communities received an average of \$201,000 in water and wastewater grant funding. On the federal side, there have been no new special appropriation earmark grants for water or wastewater projects since FFY 2010. Although communities would like to fund their projects with grants, the likelihood of receiving enough grant funds to build a complete project seems improbable.

The NM CWSRF has been allowed to offer a small portion of each of the last three annual federal allotments of funds as subsidy in the form of grants. Combining grants when available along with low-interest loans is allowing the NM CWSRF to reach new borrowers each year and is helping NM communities build fully-functional projects that small annual grant amounts do not provide.

The NM CWSRF made 5 new loans in SFY 2013. This is more loans than any other year, outside of ARRA, in the history of the NM CWSRF.



**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013**

**Currently Known Facts, Decisions, or Conditions that are Expected to Have a Significant Effect on the Financial Position or Results of Operations**

The NM CWSRF overhauled the ranking criteria for the prioritization of potential projects during SFY 2013. The system expands the scoring factors from three less well-defined categories:

- Existing Water Pollution;
- Population, with larger communities receiving more points;
- and Water Quality Preservation

to five detailed categories with several subsections:

- Water Quality Improvement;
- Environmental Compliance;
- Financial Affordability;
- Sustainability;
- and Readiness to Proceed.

The revised CWSRF prioritization process has made it easier for the Department to score and rank each application and is more transparent to eligible entities that apply to the program. It also leveled the playing field so that smaller, less populated communities in the state have potential access to the funds and added in a small amount of bonus points for projects that meet the EPA definition of green projects. The system was approved by EPA and adopted by the New Mexico Water Quality Control Commission during SFY 2013

**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 POSITION  
June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current:		
Investment in state general fund investment pool	\$ 101,839,228	\$ 85,564,659
Receivables:		
Interest on loans	1,991,487	1,666,393
Due from other state agencies	8,426	16,896
Due from federal government	314,255	38,638
Due from other governmental fund (06400)	192,383	33,655
Loan receivables:		
Current portion of completed projects, net of origination fees	8,697,815	9,370,224
Total current assets	113,043,594	96,690,465
Loan receivables:		
Non-current portion of projects in progress	23,419,414	14,863,168
Non-current portion of completed projects, net of origination fees	130,638,819	140,076,613
Total long-term assets	154,058,233	154,939,781
<b>TOTAL ASSETS</b>	<b>\$ 267,101,827</b>	<b>\$ 251,630,246</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 314,259	\$ 7
Unearned revenue	1,400,000	-
Due to other governmental fund (06400)	19,404	19,404
Total liabilities	1,733,663	19,411
<b>NET POSITION</b>		
Restricted - expendable	265,368,164	251,610,835
Total net position	265,368,164	251,610,835
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 267,101,827</b>	<b>\$ 251,630,246</b>

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 POSITION  
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Interest on loans	\$ 3,354,162	\$ 3,398,882
Interest on investments	204,633	117,001
Debt service fees	<u>381,614</u>	<u>397,669</u>
Total operating revenues	<u>3,940,409</u>	<u>3,913,552</u>
<b>OPERATING EXPENSES</b>		
Transfers - (06400) Administrative expenses	7,617	207,745
Administrative expenses (Cap grant)	<u>438,666</u>	<u>293,978</u>
Total operating expenses	<u>446,283</u>	<u>501,723</u>
<b>OPERATING INCOME</b>	3,494,126	3,411,829
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Federal award program grants	9,358,143	10,104,882
Grants to other organizations	(1,939,340)	(1,859,595)
Bond proceeds	<u>2,844,400</u>	<u>-</u>
Total non-operating revenues	<u>10,263,203</u>	<u>8,245,287</u>
<b>INCOME AFTER TOTAL NON-OPERATING REVENUES</b>	<u>13,757,329</u>	<u>11,657,116</u>
<b>CHANGE IN NET POSITION</b>	13,757,329	11,657,116
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>251,610,835</u>	<u>239,953,719</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 265,368,164</u>	<u>\$ 251,610,835</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Cash received on repayment of loan principal	\$ 11,360,094	\$ 12,877,947
Cash received on interest from loans	3,029,068	3,477,895
Interest payments received from State Treasurer's Office	213,103	106,354
Cash received for debt service fees	381,614	397,669
Cash payments for administrative expenses (Admin fund-32700)	(166,345)	(20,724)
Cash payments for administrative expenses (Cap grant)	(438,673)	(324,936)
Cash payments made to borrowers	<u>(9,806,137)</u>	<u>(11,058,196)</u>
Net cash provided by operating activities	<u>4,572,724</u>	<u>5,456,009</u>
 <b>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grant proceeds - EPA	9,082,526	10,075,738
Grants to other organizations	(1,625,081)	(1,859,595)
Bond proceeds	<u>4,244,400</u>	<u>-</u>
Net cash provided by capital and related activities	<u>11,701,845</u>	<u>8,216,143</u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	16,274,569	13,672,152
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>85,564,659</u>	<u>71,892,507</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 101,839,228</u>	<u>\$ 85,564,659</u>



	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 3,494,126	\$ 3,411,829
Adjustments to operating income:		
Change in assets and liabilities:		
Interest on loans receivable	(325,094)	79,013
Due from other state agencies	8,470	(10,648)
Loan receivables	1,553,957	1,819,751
Accounts payable	(7)	(392)
Due to other governmental fund (06400)	-	(25,580)
Due from other governmental fund (06400)	(158,728)	187,021
Accrued liabilities	-	(4,985)
	<u>1,078,598</u>	<u>2,044,180</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 4,572,724</u>	<u>\$ 5,456,009</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, 2013 and 2012**

**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. The Environmental Protection Agency (EPA) requires the Department to submit an annual report of the Fund. As a result, the Department issues this separate set of financial statements consisting of these two funds of the Department. The Department does not have any component units.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**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 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 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 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.

In June 2011, GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), effective for the Fund's fiscal year beginning July 1, 2012. GASB 63 modifies the presentation of deferred inflows and deferred outflows in the financial statements; it also limits the use of the term "deferred." Implementation of GASB 63 had no effect on the Fund's net position or changes in net position for the fiscal year ended June 30, 2013.

During FY13, the Fund implemented GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 2009 FASB and AICPA Pronouncements*. GASBS 62 incorporates any old FASB statements that apply to government accounting into

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

GASB statements. Therefore, the old policy disclosure regarding which FASB pronouncements apply, or do not apply, to the Fund's financial statements is no longer necessary.

**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, 2013.

**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, 2013. Net position is 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, 2013 was \$101,839,228. 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, 2013.

**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)**

**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, 2013.

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, 2013.

**Loans Receivable**

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.

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

**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 and the budgetary comparisons are presented in the Department's financial statements.

**Subsequent Events**

Management evaluated subsequent events through December 5, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to December 5, 2013, 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, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, 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, 2013.

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

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

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**NOTE 3. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)**

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

In FY 2012, management of DFA recorded a loss contingency of \$101.7 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount. The Department's financial statements were not impacted by the cash reconciliation issue.

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the 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, 2013, there are no delinquent loans outstanding and management has determined there is no allowance for uncollectible accounts required. Loans receivable as of June 30 consist of the following:

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

	<u>2013</u>	<u>2012</u>
Loans – projects in progress	\$ 23,419,414	\$ 14,863,168
Accrued interest	<u>647,770</u>	<u>198,894</u>
<b>Total assets</b>	<b><u>\$ 24,067,184</u></b>	<b><u>\$ 15,062,062</u></b>
Loans in repayment – completed projects	\$ 139,336,634	\$ 149,446,837
Accrued interest	<u>1,343,717</u>	<u>1,467,499</u>
<b>Total assets</b>	<b><u>\$ 140,680,351</u></b>	<b><u>\$ 150,914,336</u></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 \$1,921,489 through June 11, 2033.

**Projects in Progress**

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

	<u>2013</u>	<u>2012</u>
Community:		
City of Carlsbad	\$ 14,647,355	\$ 12,359,329
City of Rio Rancho	7,427,518	1,443,524
Village of Corrales	540,000	-
El Valle de Los Ranchos	430,000	-
Sandoval County/Cuba	360,000	30,315
Village of Jemez Springs	14,541	-
Town of Taos	-	1,000,000
Village of Questa	<u>-</u>	<u>30,000</u>
<b>Total</b>	<b><u>\$ 23,419,414</u></b>	<b><u>\$ 14,863,168</u></b>



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

**Completed Projects**

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

	<u>2013</u>	<u>2012</u>
Community:		
Hobbs	\$ 28,807,025	\$ 30,125,994
Los Lunas	20,829,760	22,025,637
Los Alamos County	12,920,909	13,496,680
Las Vegas	12,566,166	13,343,843
Farmington	10,135,082	10,765,125
Clovis	6,867,595	7,256,930
Albuquerque	6,441,679	6,882,353
Espanola	6,272,532	6,762,071
Rio Rancho	6,012,651	6,521,861
Lovington	5,081,662	5,330,613
Aztec	4,151,841	4,370,220
Dona Ana County	3,935,956	4,142,980
Belen	2,224,676	2,423,864
Bloomfield	1,995,826	2,127,905
Grants	1,926,297	2,289,193
Silver City	1,458,654	1,651,013
Taos Ski Valley	1,246,543	1,317,374
Town of Taos	1,200,000	-
Bayard	1,082,256	1,144,347
Ruidoso	905,670	978,637
City of Socorro	755,355	889,390
Santa Rosa	450,000	475,000
Elephant Butte	427,821	447,410
Logan	325,606	343,695
Dona Ana	286,182	330,660
Eagle Nest	192,536	199,978
Raton	105,666	110,504
Wagon Mound	92,255	97,380
Ruidoso Downs	91,686	95,884
Estancia	90,000	135,000
Tucumcari	90,000	95,000
San Miguel	89,618	93,465
Ruidoso Village	89,515	93,509
Questa	49,891	-
Hatch	45,000	47,500
Willard	36,195	39,294
CRRUA/Sunland Park	29,814	59,333
Ya-Ta-Hey W&SD	26,714	32,055
Gallup	-	2,353,755
Albuquerque – Compost	-	551,385
<b>Total</b>	<b><u>\$ 139,336,634</u></b>	<b><u>\$ 149,446,837</u></b>

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

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

Years ending June 30:

2014	\$ 11,847,624
2015	11,817,512
2016	11,772,512
2017	11,772,512
2018	11,772,511
2019 and thereafter	<u>107,183,739</u>
<b>Total</b>	<b><u>\$ 166,166,410</u></b>

**NOTE 5 - LOAN COMMITMENTS**

As of June 30, 2013, the Fund executed binding commitments to disburse loans from the Fund in the amount of \$7,230,455.

**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, 2013 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	-	-

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**NOTE 6 - FEDERAL GRANT AWARDS AND CORRESPONDING STATE MATCHES  
 (CONTINUED)**

<u>Award Year</u>	<u>Federal Capitalization Grants</u>	<u>State Matching Appropriations</u>
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	1,444,400
2013	<u>6,908,000</u>	<u>2,800,000</u>
<b>Total</b>	<b><u>\$ 165,865,448</u></b>	<b><u>\$ 36,441,615</u></b>

As of June 30, 2013, the State of New Mexico has overmatched the Fund by \$3,268,525. 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. For federal fiscal year 2013, the Department was allotted \$6,520,000, which was not awarded until July 2013. This amount is not included in the above schedule.

Federal grants awarded through June 30, 2013 and still available or committed to the Fund for loans are as follows:

<u>Award Year</u>	<u>2013</u>	<u>2012</u>
2009	\$ -	\$ -
2010	-	-
2011	-	2,437,422
2012	509,207	7,222,000
2013	<u>6,862,907</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 7,372,114</u></b>	<b><u>\$ 9,659,422</u></b>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**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 \$6,979,475 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.

**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.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**NOTE 9 - FUNDS AT AUTOMATED CLEARING HOUSE (ACH) (CONTINUED)**

As of June 30, 2013, 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>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 2,358,403	\$ 2,400,948
Amounts released to ACH during year	14,084,907	10,002,000
Drawdowns for loans	(8,643,861)	(7,907,934)
Drawdowns for administrative expenses	(423,718)	(142,126)
Amounts released to ACH during year (ARRA)	-	-
Drawdowns for grants/administrative expenses (ARRA)	-	(1,994,485)
<b>Total</b>	<u>\$ 7,375,731</u>	<u>\$ 2,358,403</u>

**NOTE 10 - RESTRICTED NET POSITION**

Restricted net position consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Restricted for future loans:		
Federal capitalization grants	\$ 159,295,923	\$ 143,308,427
State matching appropriations	36,441,615	33,641,615
Interest and other	69,630,626	74,660,793
<b>Total</b>	<u>\$ 265,368,164</u>	<u>\$ 251,610,835</u>

**NOTE 11 - ACCRUED INTEREST RECEIVABLE**

Changes in accrued interest receivable are as follows:

	<u>Amount Increase (Decrease)</u>	
	<u>2013</u>	<u>2012</u>
Beginning of year	\$ 1,666,393	\$ 1,745,406
Interest earned	3,354,162	3,398,882
Interest received	(3,029,068)	(3,477,895)
Interest rolled	-	-
<b>End of year</b>	<u>\$ 1,991,487</u>	<u>\$ 1,666,393</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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**NOTE 12 - SUBSEQUENT ACCOUNTING STANDARD PRONOUNCEMENTS**

The GASB issued Statement No. 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net position. The Department is reviewing the effects of the implementation of this statement.

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

**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
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COMBINING STATEMENTS OF NET POSITION BY FUNCTIONAL ACTIVITIES  
June 30, 2013**

	<b>Wastewater Facility Construction Loan Fund 12100</b>	<b>Clean Water Administrative Fund 32700</b>	<b>Total</b>
	<u>12100</u>	<u>32700</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Investment in state general fund investment pool	\$ 100,911,590	\$ 927,638	\$ 101,839,228
Receivables:			
Interest on loans	1,991,487	-	1,991,487
Due from other state agencies	8,357	69	8,426
Due from federal government	314,255	-	314,255
Due from other governmental fund (06400)	-	192,383	192,383
Loan receivables:			
Current portion of completed projects, net of origination fees	<u>8,697,815</u>	<u>-</u>	<u>8,697,815</u>
Total current assets	<u>111,923,504</u>	<u>1,120,090</u>	<u>113,043,594</u>
Loan receivables:			
Non-current portion of projects in progress	23,419,414	-	23,419,414
Non-current portion of completed projects, net of origination fees	<u>130,638,819</u>	<u>-</u>	<u>130,638,819</u>
Total long-term assets	<u>154,058,233</u>	<u>-</u>	<u>154,058,233</u>
<b>TOTAL ASSETS</b>	<u>\$ 265,981,737</u>	<u>\$ 1,120,090</u>	<u>\$ 267,101,827</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 314,259	\$ -	\$ 314,259
Unearned revenue	1,400,000	-	1,400,000
Due to other governmental fund (06400)	<u>19,404</u>	<u>-</u>	<u>19,404</u>
Total liabilities	<u>1,733,663</u>	<u>-</u>	<u>1,733,663</u>
<b>NET POSITION</b>			
Restricted - expendable	<u>264,248,074</u>	<u>1,120,090</u>	<u>265,368,164</u>
Total net position	<u>264,248,074</u>	<u>1,120,090</u>	<u>265,368,164</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 265,981,737</u>	<u>\$ 1,120,090</u>	<u>\$ 267,101,827</u>



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

	<b>Wastewater Facility Construction Loan Fund 12100</b>	<b>Clean Water Administrative Fund 32700</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<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	<u>9,370,224</u>	<u>-</u>	<u>9,370,224</u>
Total current assets	<u>95,946,126</u>	<u>744,339</u>	<u>96,690,465</u>
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	<u>140,076,613</u>	<u>-</u>	<u>140,076,613</u>
Total long-term assets	<u>154,939,781</u>	<u>-</u>	<u>154,939,781</u>
<b>TOTAL ASSETS</b>	<u>\$ 250,885,907</u>	<u>\$ 744,339</u>	<u>\$ 251,630,246</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 7	\$ -	\$ 7
Due to other governmental fund (06400)	<u>19,404</u>	<u>-</u>	<u>19,404</u>
Total liabilities	<u>19,411</u>	<u>-</u>	<u>19,411</u>
<b>NET POSITION</b>			
Restricted - expendable	<u>250,866,496</u>	<u>744,339</u>	<u>251,610,835</u>
Total net position	<u>250,866,496</u>	<u>744,339</u>	<u>251,610,835</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 250,885,907</u>	<u>\$ 744,339</u>	<u>\$ 251,630,246</u>

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION BY FUNCTIONAL ACTIVITIES  
Year Ended June 30, 2013**

	<b>Wastewater Facility Construction Loan Fund 12100</b>	<b>Clean Water Administrative Fund 32700</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Interest on loans	\$ 3,354,162	\$ -	\$ 3,354,162
Interest on investments	202,879	1,754	204,633
Debt service fees	-	381,614	381,614
	<u>3,557,041</u>	<u>383,368</u>	<u>3,940,409</u>
Total operating revenues			
<b>OPERATING EXPENSES</b>			
Transfers (06400) Admin expenses	-	7,617	7,617
Administrative expenses (Cap grant)	438,666	-	438,666
	<u>438,666</u>	<u>7,617</u>	<u>446,283</u>
Total operating expenses			
<b>OPERATING INCOME</b>	3,118,375	375,751	3,494,126
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Federal award program grants	9,358,143	-	9,358,143
Grants to other organizations	(1,939,340)	-	(1,939,340)
Bond proceeds	2,844,400	-	2,844,400
	<u>10,263,203</u>	<u>-</u>	<u>10,263,203</u>
Total non-operating revenues			
<b>INCOME AFTER TOTAL NON-OPERATING REVENUES</b>	<u>13,381,578</u>	<u>375,751</u>	<u>13,757,329</u>
<b>CHANGE IN NET POSITION</b>	13,381,578	375,751	13,757,329
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>250,866,496</u>	<u>744,339</u>	<u>251,610,835</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 264,248,074</u>	<u>\$ 1,120,090</u>	<u>\$ 265,368,164</u>

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

	<b>Wastewater Facility Construction Loan Fund 12100</b>	<b>Clean Water Administrative 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	-	397,669	397,669
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)	293,978	-	293,978
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)
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 POSITION</b>	11,466,383	190,733	11,657,116
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>239,400,113</u>	<u>553,606</u>	<u>239,953,719</u>
<b>TOTAL NET POSITION, 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 CASH FLOWS  
Year Ended June 30, 2013**

	Wastewater Facility Construction Loan Fund 12100	Clean Water Administrative Fund 32700	Total
<b>CASH FLOWS PROVIDED BY</b>			
<b>OPERATING ACTIVITIES</b>			
Cash received on repayment of loan principal	\$ 11,360,094	\$ -	\$ 11,360,094
Cash received on interest from loans	3,029,068	-	3,029,068
Interest payments received from State Treasurer's Office	211,275	1,828	213,103
Cash received for debt service fees	-	381,614	381,614
Cash payments for administrative expenses (Admin fund-32700)	-	(166,345)	(166,345)
Cash payments for administrative expenses (Cap grant)	(438,673)	-	(438,673)
Cash payments made to borrowers	(9,806,137)	-	(9,806,137)
	<u>4,355,627</u>	<u>217,097</u>	<u>4,572,724</u>
Net cash provided by operating activities			
<b>CASH FLOWS PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Grant proceeds - EPA	9,082,526	-	9,082,526
Grants to other organizations	(1,625,081)	-	(1,625,081)
Bond proceeds	4,244,400	-	4,244,400
	<u>11,701,845</u>	<u>-</u>	<u>11,701,845</u>
Net cash provided by capital and related activities			
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	16,057,472	217,097	16,274,569
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>84,854,118</u>	<u>710,541</u>	<u>85,564,659</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 100,911,590</u>	<u>\$ 927,638</u>	<u>\$ 101,839,228</u>

	<b>Wastewater Facility Construction Loan Fund 12100</b>	<b>Clean Water Administrative Fund 32700</b>	<b>Total</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income	\$ 3,118,375	\$ 375,751	\$ 3,494,126
Adjustments to operating income:			
Change in assets and liabilities:			
Interest on loans receivable	(325,094)	-	(325,094)
Due from other state agencies	8,396	74	8,470
Loan receivables	1,553,957	-	1,553,957
Accounts payable	(7)	-	(7)
Due from other governmental fund (06400)	-	(158,728)	(158,728)
Total reconciling adjustments	<u>1,237,252</u>	<u>(158,654)</u>	<u>1,078,598</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 4,355,627</u>	<u>\$ 217,097</u>	<u>\$ 4,572,724</u>

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

	<b>Wastewater Facility Construction Loan Fund 12100</b>	<b>Clean Water Administrative 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	<u>5,078,370</u>	<u>377,639</u>	<u>5,456,009</u>
<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 capital and related activities	<u>8,216,143</u>	<u>-</u>	<u>8,216,143</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>13,294,513</b>	<b>377,639</b>	<b>13,672,152</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>71,559,605</u>	<u>332,902</u>	<u>71,892,507</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 84,854,118</u>	<u>\$ 710,541</u>	<u>\$ 85,564,659</u>

	<b>Wastewater Facility Construction Loan Fund 12100</b>	<b>Clean Water Administrative 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>

**SINGLE AUDIT**



STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2013

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 - CS350002-11	66.458	\$ 2,268,897
Construction Loan, Construction/Administration - CS350002-12	66.458	<u>7,089,246</u>
		<u>9,358,143</u>
Total U.S. Environmental Protection Agency		<u>9,358,143</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 9,358,143</u>

See Notes to the Schedule of Expenditures of Federal Awards.

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2013**

**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 basic financial statements.

**NON-CASH ASSISTANCE**

The Fund did not receive any federal non-cash assistance during the year ended June 30, 2013.

**LOANS**

The Fund does not have any loans outstanding with the Federal government at June 30, 2013.

**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, 2013 were \$9,806,137. CWSRF outstanding loans at June 30, 2013 were \$162,756,048. In addition, as detailed in the schedule below, the Fund provided \$1,939,340 in grants to the various communities throughout New Mexico as grants, in which the non-state match amounts are included in the schedule of expenditures of federal awards as Construction Loan, Construction/Administration - CS350002-12 (CFDA 66.458).

<u>Community</u>	<u>Amount</u>
Sandoval County/Cuba	\$ 971,877
Corrales	559,287
El Valle De Los Ranchos	<u>408,176</u>
<b>Total</b>	<b><u>\$ 1,939,340</u></b>



**CliftonLarsonAllen**

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**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**

Mr. Ryan Flynn  
State of New Mexico Environment Department and  
Mr. Hector H. Balderas  
New Mexico State Auditor

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 (the Department) as of and for the years ended June 30, 2013 and 2012, 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 revenues, expenses and changes in fund net position by functional activities and combining statements of cash flows of the Fund, presented as supplementary information, and have issued our report thereon dated December 5, 2013.

**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 opinion 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.

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. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of 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.

**CliftonLarsonAllen LLP**

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Albuquerque, New Mexico  
December 5, 2013



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**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**

Mr. Ryan Flynn  
State of New Mexico Environment Department and  
Mr. Hector H. Balderas  
New Mexico State Auditor

**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's (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended June 30, 2013. The Fund's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

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

***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, 2013.

## 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**CliftonLarsonAllen LLP**



Albuquerque, New Mexico  
December 5, 2013

**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
 CLEAN WATER STATE REVOLVING FUND  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 June 30, 2013**

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

**Financial Statements**

Type of auditors' 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 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: Unmodified

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**

<b>Number(s)</b>	<b>Name of Federal Program or Cluster</b>
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, 2013**

**Section II – Financial Statement Findings**

There were no findings for the year ended June 30, 2013.

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

There were no findings for the year ended June 30, 2013.



**STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT  
CLEAN WATER STATE REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
AND QUESTIONED COSTS  
June 30, 2013**

**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  
EXIT CONFERENCE  
June 30, 2013**

An exit conference was held with the Department on November 26, 2013. 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**

Cathy Atencio	ASD Director
Vince Lithgow, CGFM	Chief Financial Officer
Marlene Cordova	General Ledger Manager
Barbara MacLellan	Budget Director

**CLIFTONLARSONALLEN LLP**

Georgie Ortiz, CPA, CGFM, Principal  
Matt Bone, CPA, CGFM, Manager  
Jane Partin, CPA, Associate

**PREPARATION OF FINANCIAL STATEMENTS**

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.