

New Mexico Environment Department Clean Water State Revolving Fund



Clean Water
State Revolving Fund

Annual Financial Statements and Schedules With Independent Auditors' Report

For the Fiscal Year Ended
June 30, 2020

**CLEAN WATER STATE REVOLVING FUND
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YEAR ENDED JUNE 30, 2020**

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**CLEAN WATER STATE REVOLVING FUND
OFFICIAL ROSTER
YEAR ENDED JUNE 30, 2020**

Office of the Secretary

James C. Kenney, Cabinet Secretary

Jennifer J. Pruett, Deputy Secretary

Division Directors

Marlene Velasquez, Acting ASD Director

Peter Street, Information Technology Division

Stephanie Stringer, Resource Protection Director

Rebecca Roose, Water Protection Division

Sandra Ely, Environmental Protection Director



INDEPENDENT AUDITORS' REPORT

Mr. James C. Kenney, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department and
Mr. Brian Colón, Esq., New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Clean Water State Revolving Fund (the Fund) of the New Mexico Environment Department (the Department), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Mr. James C. Kenney, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department and
Mr. Brian Colón, Esq., New Mexico State Auditor

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Fund of the Department as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of the Department that is attributable to the transactions of the Fund. They do not purport to, and do not present fairly the financial position of the Department as of June 30, 2020, and the changes in the financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The combining statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Mr. James C. Kenney, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department and
Mr. Brian Colón, Esq., New Mexico State Auditor

The combining statements as listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and each combining statement as listed in the table of contents are 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 November 2, 2020, 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 solely 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 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

Albuquerque, New Mexico
November 2, 2020

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

The New Mexico Environment Department (NMED), Construction Programs Bureau (CPB) offers readers this discussion and analysis for the Clean Water State Revolving Fund (CWSRF) financial position and financial activities for the fiscal year that ended June 30, 2020. The CWSRF is also known as the Wastewater Facility Construction Loan Fund. This analysis is intended to serve as an introduction to the CWSRF basic financial statements and to provide an analytical overview of the fund's operations. CPB encourages readers to consider the information presented here in conjunction with additional information that was furnished in the CWSRF's annual report. 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) 2020, the CWSRF reports a total net position of \$351,148,803 an increase of \$15,488,505 for CWSRF Fund 12100 and CWSRF Admin Fund 32700 combined. This 4.6% annual growth represents a healthy fund.
- The CWSRF was awarded one capitalization grant for the Federal Fiscal Year (FFY) 2020 in the amount of \$7,779,000.
- The CWSRF collected \$10,387,016 in loan repayment principal, \$3,246,960 in loan repayment interest, and \$883,520 in administrative loan fees. Total principal, interest, and administrative fees received were \$14,517,496.
- The CWSRF fund earned \$5,097,480 of interest income on overnight funds deposited at the State Treasurer's Office for Fund 12100 and Fund 32700 combined.
- Fund 12100 disbursed \$14,586,117 for construction projects in SFY 2020.
- Fund 12100 incurred administrative expenses of \$539,343; Fund 32700 incurred administrative expenses of \$179,070.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Overview of the Financial Statements

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

With Fund 12100 representing approximately 99% of the collective total of both funds, the discussion and analysis will focus on this enterprise fund. The notes to the financial statements address both funds.

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

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

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2020**

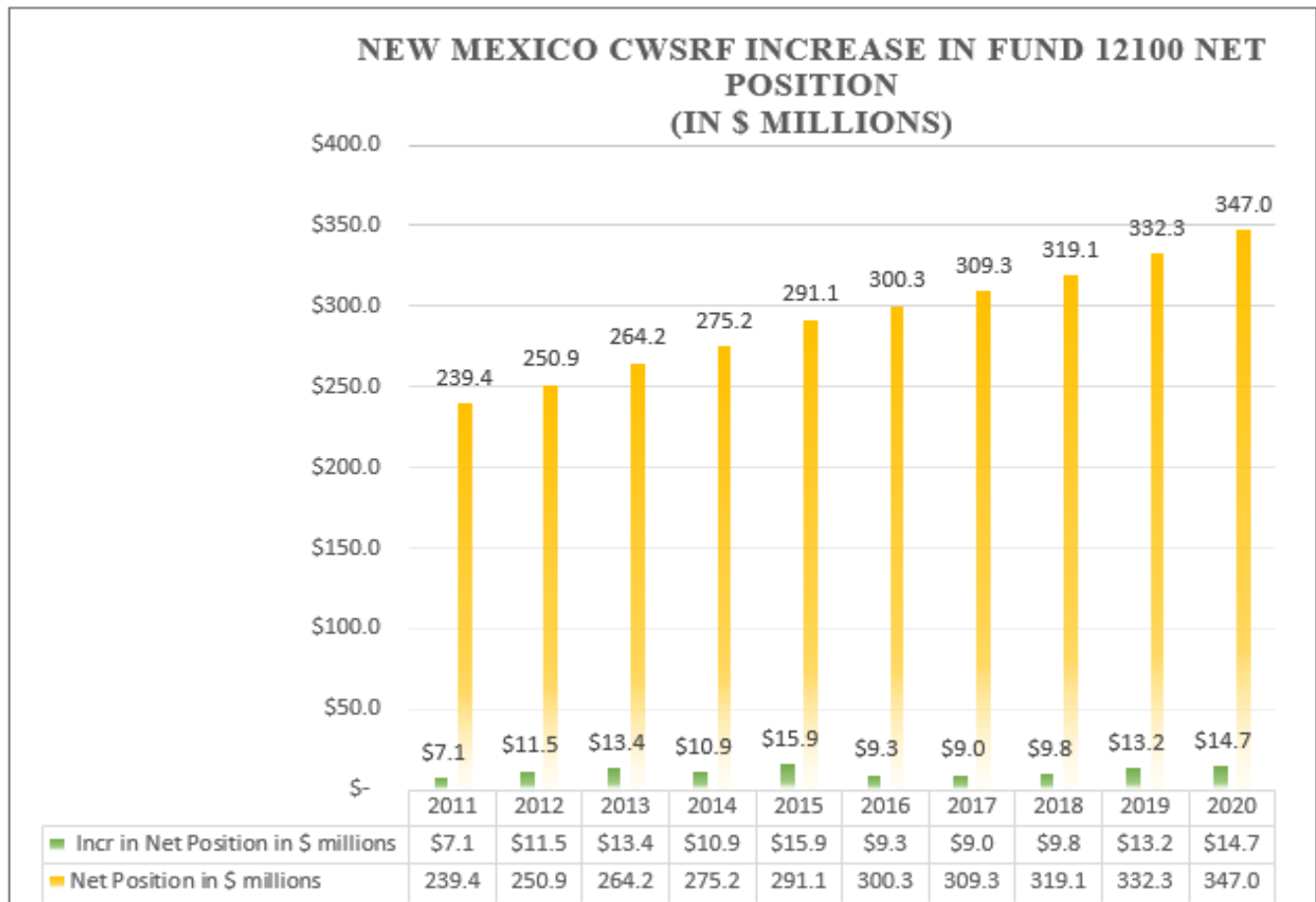
Condensed Financial Information

	<u>2020</u>	<u>2019</u>
NET POSITION		
ASSETS		
Current Assets	\$ 182,772,065	\$ 171,282,461
Noncurrent Assets	<u>168,376,742</u>	<u>165,877,841</u>
TOTAL ASSETS	351,148,807	337,160,302
LIABILITIES		
Current Liabilities	<u>4</u>	<u>1,500,004</u>
NET POSITION		
Restricted	<u>\$ 351,148,803</u>	<u>\$ 335,660,298</u>
CHANGES IN NET POSITION		
Program Revenues:		
Interest on Loans	\$ 2,119,429	\$ 2,280,408
Interest on Investments	5,097,480	4,893,991
Debt Service Fees	882,140	515,754
General Revenues:		
Federal Grant Revenue	7,779,000	7,859,000
Grants to Other Organizations	(1,171,131)	(2,234,725)
Transfers in - Other Agencies	1,500,000	1,100,000
Transfers - INTRA Agency	<u>(718,413)</u>	<u>(778,652)</u>
Total Revenues	<u>15,488,505</u>	<u>13,635,776</u>
CHANGE IN NET POSITION	15,488,505	13,635,776
Net Position - Beginning of Year	<u>335,660,298</u>	<u>322,024,522</u>
NET POSITION - END OF YEAR	<u>\$ 351,148,803</u>	<u>\$ 335,660,298</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2020**

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

The Fund 12100 Statement of Net Position demonstrates that the fund grew by \$14.7 million during SFY 2020 and has shown consistent growth over the years. This chart represents both the cumulative growth of the fund balance, as well as each year's respective increases. The amounts are represented in millions of dollars.



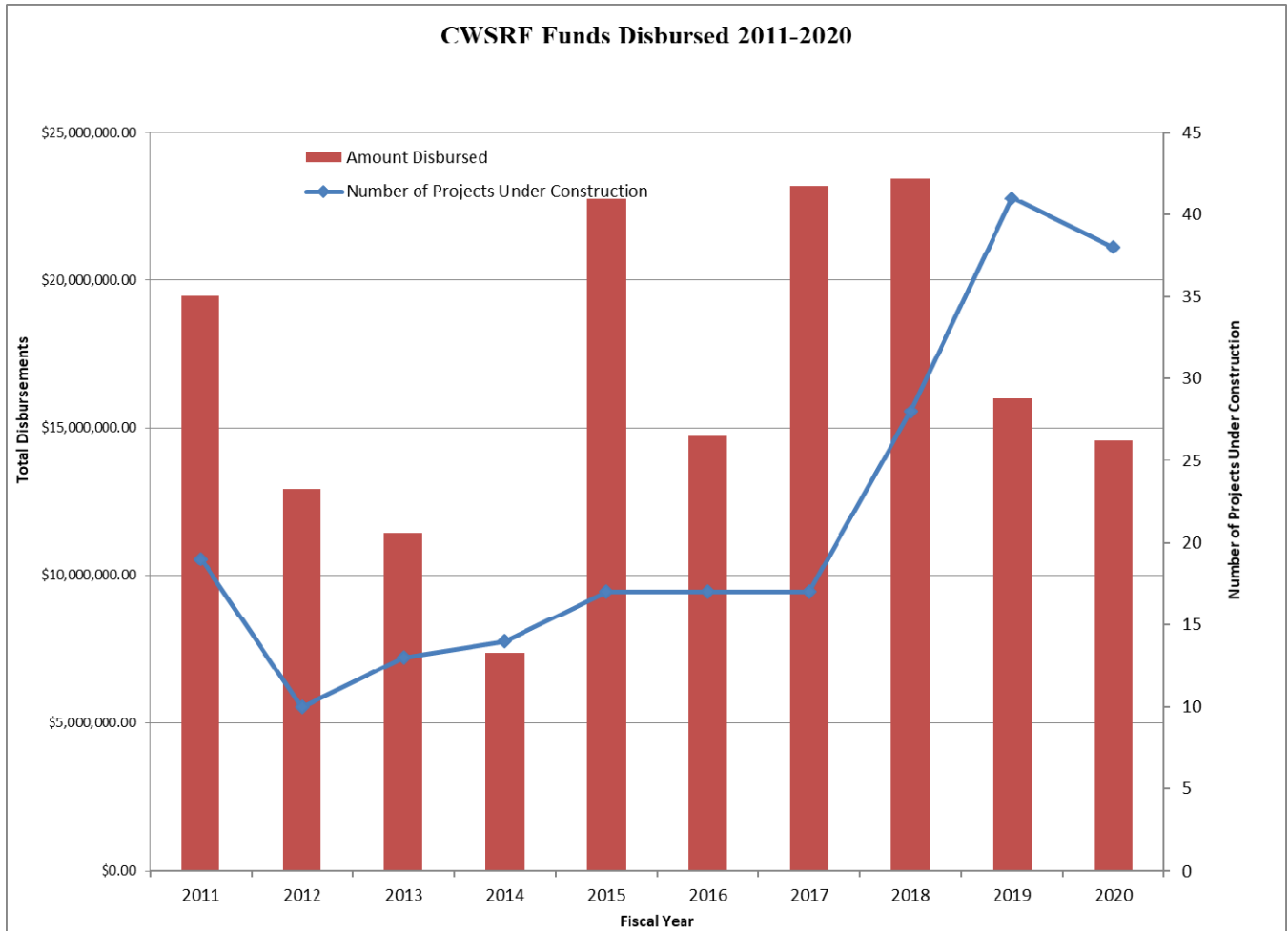
The growth of the Fund is attributable to multiple factors which include:

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Performance

As of the end of SFY 2020, the NM CWSRF has fully expended the FFY 2019 federal allotment. NM CWSRF had 38 projects in progress at the end of SFY 2020. The Fund disbursed \$14,586,117 to projects during SFY 2020.



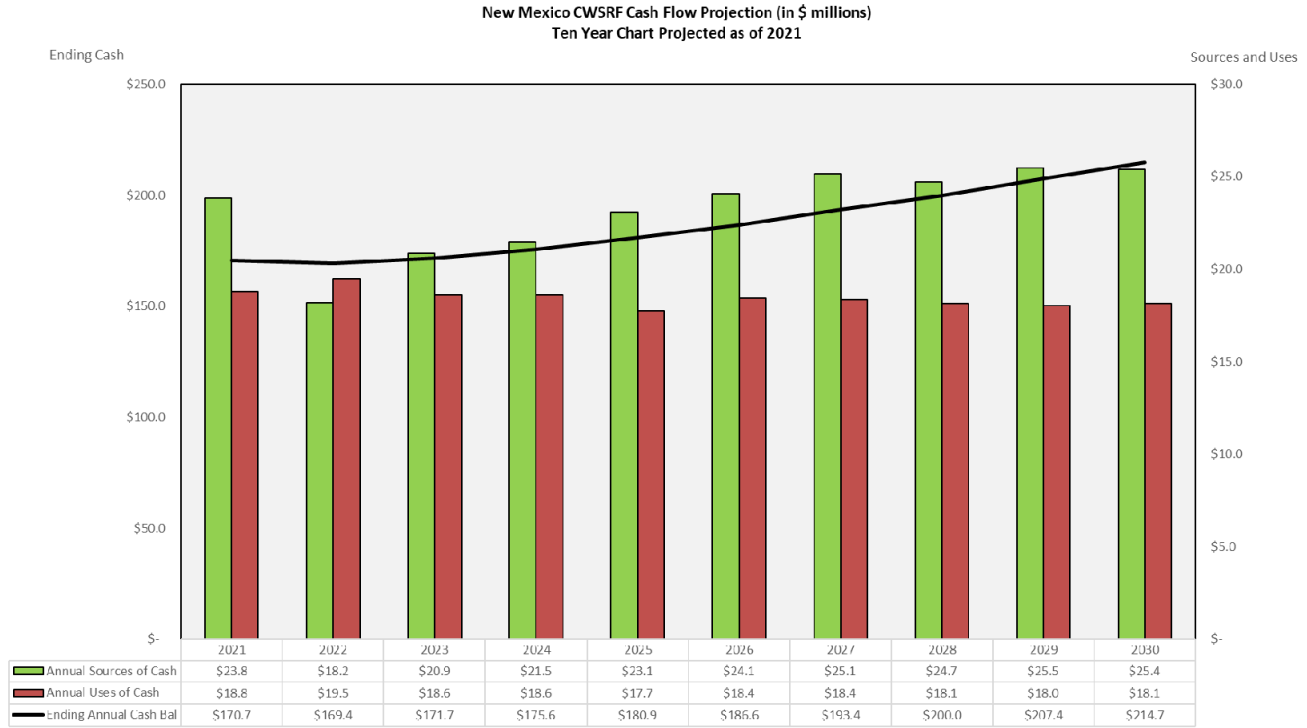
Projections

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

The ten-year chart demonstrates that from 2021 to 2030, the NM CWSRF has funding not only to support projected projects, but to increase funding where possible through enhanced outreach, CWSRF expanded eligibilities or other funding opportunities. The projected cash flow allows the CWSRF to continue to effectively execute loans for environmentally important construction projects needed in New Mexico.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Ten Year Cash Flow Projections:



Factors Affecting Fund Resources for Future Use

Multiple factors impact the performance of the Fund including competing programs, additional subsidization, and investment earnings.

The Program competes with and complements the Capital Outlay Special Appropriation Program (CO SAP) and the Rural Infrastructure Revolving Loan Program (RIP). The CO SAP provides communities with 100% grant funding via legislative Capital Outlay appropriations. In 2020, Capital Outlay appropriations accounted for 40 wastewater projects totaling \$17.2 million. The RIP program provides loan and grant funding to rural communities. This program has an open application cycle and quick loan execution but has population restrictions and a maximum loan amount of two million dollars per year. The RIP program funded \$750,000 in wastewater projects for SFY 2020. CO SAP and RIP provides some opportunities for co-funding with the CWSRF, but also removes funding opportunities.

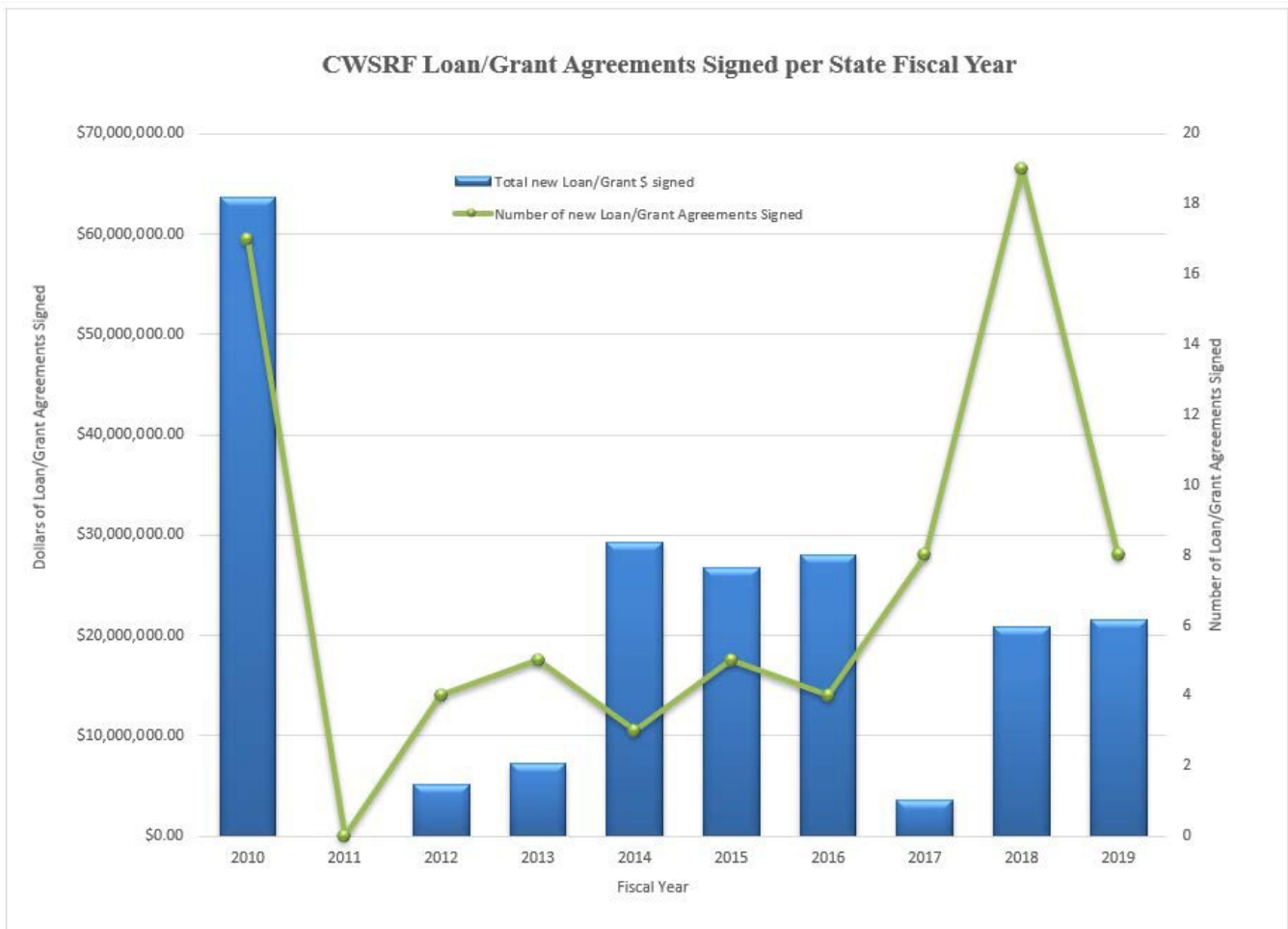
The Water Resources Reformation and Development Act (WRRDA) provides that the Program can provide communities with up to 30% of the federal grant awarded to NMED as additional subsidization. The FFY 2018 allotment, utilized in SFY 2019, also mandated an additional 10% of the award for use as additional subsidization not subject to WRRDA restrictions. The Program provided total additional subsidization of \$4,630,730 in SFY 2020 to new and amended loans with \$1,519,130 from previous capitalization grants. Additional subsidization, combined with low interest rates, allows the Program to

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2020**

provide funding packages for projects that may otherwise be too expensive for the rural and economically challenged communities of New Mexico.

The Program realized a strong increase in interest earned on the Fund in SFY 2020. Interest received on investment income from the State Treasurer's Office in SFY 2020 was \$4,990,179 compared to \$4,808,378 in SFY 2019 for Fund 12100; and \$107,301 compared to \$85,613 in SFY 2019 for Fund 32700.

The NM CWSRF signed 9 new loan/grant agreements in SFY 2020 totaling \$26.3 million and amended 4 existing agreements by \$15.3 million for a total of \$41.6 million. The CWSRF New Loan/Grant Agreement chart shows the amount and number of agreements signed over the last 10 years.



**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Factors Impacting Future Performance

In FY 2018, CPB amended state statute 74-A to expand the type of projects and borrowers eligible for CWSRF funding. This change allows the program to fully encompass what is allowed in the Clean Water Act. CPB can now reach out to a more diverse group of borrowers and fund a wider range of water quality projects. In FY 2020, the Program received applications from one state agency and seven private borrowers. CPB will continue to work to fund non-traditional entities.

Requests for Information

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 STATEMENT OF NET POSITION
 JUNE 30, 2020**

ASSETS

CURRENT ASSETS

Investments in State General Fund	
Investment Pool	\$ 171,315,471
Receivables:	
Loan Receivables (Completed Projects)	10,177,312
Loan Interest Receivables	1,045,357
Administrative Fee Receivables	233,925
Total Current Assets	182,772,065

NONCURRENT ASSETS

Loan Receivables (Projects in Process)	28,998,697
Loan Receivables (Completed Projects)	139,378,045
Total Noncurrent Assets	168,376,742

Total Assets	\$ 351,148,807
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LIABILITIES

LIABILITIES

Due to State General Fund	\$ 4
Unearned Revenue	-
Total Liabilities	4

NET POSITION

Restricted	351,148,803
Total Liabilities and Net Position	\$ 351,148,807

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 YEAR ENDED JUNE 30, 2020**

REVENUES

Interest on Loans	\$ 2,119,429
Interest on Investments	5,097,480
Debt Service Fees	882,140
Total Revenues	8,099,049

OPERATING INCOME

8,099,049

NON-OPERATING REVENUES (EXPENSES)

Federal Grant Revenue	7,779,000
Grants to Other Organizations	(1,171,131)
Transfers in - Other Agencies	1,500,000
Transfers - INTRA Agency	(718,413)
Total Nonoperating Revenues	7,389,456

CHANGE IN NET POSITION

15,488,505

Total Net Position - Beginning

335,660,298

TOTAL NET POSITION - ENDING

\$ 351,148,803

See accompanying Notes to Financial Statements.

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received on Repayment of Loan Principal	\$	10,387,016
Cash Received on Interest from Loans		3,246,960
Interest Payments Received from State Treasurer's Office		5,097,480
Cash Received for Debt Service Fees		883,520
Cash Payments Made to Borrowers		<u>(13,414,986)</u>
Net Cash Provided by Operating Activities		6,199,990

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grant Proceeds - EPA		7,779,000
Grants to Other Organizations		(1,171,131)
State Appropriations		-
Cash Payments for Administrative Expenses, Net		<u>(718,413)</u>
Net Cash Provided by Noncapital Financing Activities		5,889,456

NET INCREASE IN CASH AND CASH EQUIVALENTS

12,089,446

Cash and Cash Equivalents - Beginning of Year

159,226,025

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 171,315,471

**RECONCILIATION OF CHANGES IN NET POSITION TO NET
 CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income	\$	8,099,049
Change in Assets and Liabilities:		
Loans Receivable		(3,069,475)
Interest on Loans Receivable		1,169,036
Other Receivables		<u>1,380</u>
Total Reconciling Adjustments		<u>(1,899,059)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 6,199,990

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 DEFINITION OF REPORTING ENTITY

Clean Water State Revolving Fund

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

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

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

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

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

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

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

Basis of Presentation

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

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

Net Position

The Fund Financial Statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted. There is no net investment in capital assets or unrestricted net position at June 30, 2020.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020. 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, 2020 was \$171,315,471. 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, 2020.

Cash and Cash Equivalent

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund did not have any items that qualified for reporting in this category as of June 30, 2020.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

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, 2020.

Loans Receivable

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

Loan Administrative Fee

As determined by Program management and provided for in New Mexico State Law (74-6A-4 NMSA 1978 et seq.), the annual administrative fee to be calculated on the outstanding principal balance is variable based on the interest rate and the loan terms, not to exceed 5% of the total loan amount. The administrative fee is collected annually with the borrower's payment.

State Matching Funds

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

Budgets

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

Financial Reporting Entity

The Department has no component units.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 STATE GENERAL FUND INVESTMENT POOL

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

On September 10, 2020, the State Controller asserted the following:

1. The comprehensive reconciliation model which compares aggregated agency claims on the SGFIP to the associated resources held by the State Treasurer's Office has been completed for fiscal year 2020. This process has been previously reviewed and is analyzed annually, by the IPAs performing audits of the General Fund, the Department of Finance and Administration, and the State of New Mexico's Comprehensive Annual Financial Report. These reviews have deemed the process sound and the Department fully compliant with reconciliation requirements.
2. As of June 30, 2020, resources held in the pool were equivalent to the corresponding business unit claims on those resources.
3. All claims, as recorded in SHARE, shall be honored at face value.

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020**

NOTE 4 LOANS RECEIVABLE

Loans receivable represent both interest and noninterest-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 noncurrent. The loans in repayment represent completed projects from which the Fund is receiving payments of principal and interest. Current portion of loans is the amount expected to be received within the next fiscal year. Loans receivable as of June 30 consist of the following:

Loans - Projects in Progress	\$ 28,998,697
Accrued Interest	188,777
Total Loans in Progress	\$ 29,187,474
Loans in Repayment-Completed Projects	\$ 149,555,357
Accrued Interest	856,580
Total Completed Loans	\$ 150,411,937

The loans are secured with pledged revenue from the operations of the borrowers' joint water and sewer system, less operation and maintenance expenses or from a gross receipts pledge. The loans bear interest at rates ranging from 0% to 3% 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 \$1,000 to \$1,921,489.

Projects in Progress

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

Grants	\$ 17,208,564
Los Lunas	6,650,822
Gallup	2,207,142
El Valle de Los Ranchos Water & Sanitation District	681,516
Farmington	538,652
Rio Arriba	493,500
Southern Sandoval County Arroyo Flood Control	327,660
Tijeras	297,500
Los Alamos	286,524
Other Communities	306,817
Total	\$ 28,998,697

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020**

NOTE 4 LOANS RECEIVABLE (CONTINUED)

Completed Projects

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

Farmington	\$ 26,278,062
Hobbs	24,990,127
Portales	22,593,000
Carlsbad	17,800,189
Los Lunas	12,055,287
Las Vegas	7,197,779
Los Alamos County	6,486,547
Aztec	5,591,237
Clovis	3,915,278
Lovington	3,190,634
Espanola	3,064,112
Dona Ana County	2,366,099
Peralta	1,500,000
El Valle de Los Ranchos Water & Sanitation District	1,421,133
Belen	1,386,264
Socorro (City)	1,125,757
Southern Sandoval County Arroyo Flood Control	1,106,212
Bloomfield	1,026,626
Santa Rosa	986,788
Taos Ski Valley	888,667
Estancia Valley Solid Waste Authority (ESVSWA)	784,407
Taos (Town)	780,000
Bayard	701,682
San Juan County	601,519
Cuba	384,465
Elephant Butte	279,283
Sandoval County	273,338
Other Communities	780,865
Total	<u>\$ 149,555,357</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020**

NOTE 4 LOANS RECEIVABLE (CONTINUED)

The following is a schedule of future annual payments, including principal, interest and administrative fee, as of June 30, 2020:

(12100) Wastewater Facility Construction Loan Fund

<u>Years Ending June 30,</u>	<u>Principal Repayments</u>	<u>Interest Payments</u>	<u>Fee Payments</u>	<u>Total</u>
2021	\$ 10,177,312	\$ 1,726,673	\$ 452,095	\$ 12,356,080
2022	11,107,494	1,757,632	422,734	13,287,860
2023	11,287,390	1,607,570	392,901	13,287,861
2024	11,150,907	1,454,245	362,504	12,967,656
2025	11,329,224	1,303,406	331,532	12,964,162
2026 and Thereafter	94,503,030	6,757,056	1,845,665	103,105,751
Completed Projects Totals	<u>\$ 149,555,357</u>	<u>\$ 14,606,582</u>	<u>\$ 3,807,431</u>	<u>\$ 167,969,370</u>

NOTE 5 LOAN COMMITMENTS

As of June 30, 2020, the Fund executed binding commitments to disburse loans from the Fund in the amount of \$26,333,000.

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, 2020 that have been allocated to the Fund since its inception.

<u>Award Years</u>	<u>Federal Capitalization Grants</u>	<u>State Matching Appropriations</u>
1986-2010	\$ 141,733,448	\$ 32,197,215
2011	10,002,000	-
2012	7,222,000	-
2013	6,908,000	2,844,400
2014	6,520,000	1,400,000
2015	6,853,000	1,300,000
2016	6,817,000	1,300,000
2017	6,525,000	1,400,000
2018	6,474,000	1,300,000
2019	7,859,000	1,100,000
2020	7,779,000	1,500,000
Total	<u>\$ 214,692,448</u>	<u>\$ 44,341,615</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

As of June 30, 2020, the State of New Mexico has future matched the Fund by \$1,403,125. This future match will be applied to future federal grant awards as part of the 20% required match. In addition, the Fund was awarded \$23,789,100 in ARRA funds not subject to the 20% state match.

NOTE 7 ADMINISTRATIVE EXPENSES

Funds received from the EPA capitalization grants may be used for the reasonable costs of administering and managing the Program. The maximum amount allowable for administering and managing the Program is an amount equal to 4% of the cumulative amount of capitalization grant awards received (less any amounts used in previous years to cover administrative expenses), \$400,000, or 1/5 percent of the current valuation of the fund, whichever is the greatest. In fiscal year 2020, administrative expenses of \$539,343 were paid from net position and limited by 1/5 of 1% of net position of the most recent audited financial statements.

NOTE 8 CONTINGENCIES

Federal Award Program

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

Risk Management

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

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020**

NOTE 9 FUNDS AT AUTOMATED CLEARING HOUSE (ACH)

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

As of June 30, 2020, balances at the ACH are as follows:

Balance - Beginning of Year	\$	-
Amounts Released to ACH During Year		7,779,000
Drawdowns for Loans		(7,779,000)
Drawdowns for Administrative Expenses		-
Balance - End of Year	<u>\$</u>	<u>-</u>

NOTE 10 RESTRICTED NET POSITION

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

Restricted net position consists of the following at June 30, 2020:

Restricted for:		
Future Loans	\$	347,038,585
Administration of the Wastewater Facility Construction Loan Fund		4,110,218
Total	<u>\$</u>	<u>351,148,803</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 11 ACCRUED INTEREST RECEIVABLE

The following schedule shows changes to accrued interest receivable for the year ending June 30, 2020. Entities are permitted to capitalize construction period interest upon project completion.

Balance - Beginning of Year	\$	2,214,393
Interest Earned		2,119,429
Interest Received		(3,246,960)
Interest Capitalized		(41,505)
Balance - End of Year	<u>\$</u>	<u>1,045,357</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF NET POSITION BY FUNCTIONAL ACTIVITIES
JUNE 30, 2020**

	<u>12100</u>	<u>32700</u>	<u>Total</u>
	Wastewater Facility Construction Loan Fund	Clean Water Administrative Fund	
ASSETS			
Current Assets:			
Investments in State General Fund			
Investment Pool	\$ 167,439,178	\$ 3,876,293	\$ 171,315,471
Receivables:			
Loan Receivables (Completed Projects)	10,177,312	-	10,177,312
Loan Interest Receivables	1,045,357	-	1,045,357
Administrative Fee Receivables	-	233,925	233,925
Total Current Assets	<u>178,661,847</u>	<u>4,110,218</u>	<u>182,772,065</u>
Noncurrent Assets:			
Loan Receivables (Projects in Process)	28,998,697	-	28,998,697
Loan Receivables (Completed Projects)	139,378,045	-	139,378,045
Total Noncurrent Assets	<u>168,376,742</u>	<u>-</u>	<u>168,376,742</u>
 Total Assets	 <u>\$ 347,038,589</u>	 <u>\$ 4,110,218</u>	 <u>\$ 351,148,807</u>
LIABILITIES			
Due to State General Fund	\$ 4	\$ -	\$ 4
Unearned Revenue	-	-	-
Total Liabilities	<u>4</u>	<u>-</u>	<u>4</u>
NET POSITION			
Restricted	<u>347,038,585</u>	<u>4,110,218</u>	<u>351,148,803</u>
 Total Liabilities and Net Position	 <u>\$ 347,038,589</u>	 <u>\$ 4,110,218</u>	 <u>\$ 351,148,807</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION BY FUNCTIONAL ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	12100 Wastewater Facility Construction Loan Fund	32700 Clean Water Administrative Fund	Total
REVENUES			
Interest on Loans	\$ 2,119,429	\$ -	\$ 2,119,429
Interest on Investments	4,990,179	107,301	5,097,480
Debt Service Fees	-	882,140	882,140
Total Revenues	<u>7,109,608</u>	<u>989,441</u>	<u>8,099,049</u>
OPERATING INCOME	7,109,608	989,441	8,099,049
NONOPERATING REVENUES (EXPENSES)			
Federal Grant Revenue	7,779,000	-	7,779,000
Grants to Other Organizations	(1,171,131)	-	(1,171,131)
Transfers in - Other Agencies	1,500,000	-	1,500,000
Transfers - INTRA Agency	<u>(539,343)</u>	<u>(179,070)</u>	<u>(718,413)</u>
Total Nonoperating Revenues (Expenses)	<u>7,568,526</u>	<u>(179,070)</u>	<u>7,389,456</u>
CHANGE IN NET POSITION	14,678,134	810,371	15,488,505
Total Net Position - Beginning	<u>332,360,451</u>	<u>3,299,847</u>	<u>335,660,298</u>
TOTAL NET POSITION - ENDING	<u>\$ 347,038,585</u>	<u>\$ 4,110,218</u>	<u>\$ 351,148,803</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF CASH FLOWS BY FUNCTIONAL ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received on Repayment of Loan Principal	\$ 10,387,016	\$ -	\$ 10,387,016
Cash Received on Interest from Loans	3,246,960	-	3,246,960
Interest Payments Received from State Treasurer's Office	4,990,179	107,301	5,097,480
Cash Received for Debt Service Fees	-	883,520	883,520
Cash Payments Made to Borrowers	<u>(13,414,986)</u>	<u>-</u>	<u>(13,414,986)</u>
Net Cash Provided by Operating Activities	5,209,169	990,821	6,199,990
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grant Proceeds - EPA	7,779,000	-	7,779,000
Grants to Other Organizations	(1,171,131)	-	(1,171,131)
Transfers In - Appropriations	-	-	-
Intra Agency Transfers	<u>(539,343)</u>	<u>(179,070)</u>	<u>(718,413)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>6,068,526</u>	<u>(179,070)</u>	<u>5,889,456</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,277,695	811,751	12,089,446
Cash and Cash Equivalents - Beginning of Year	<u>156,161,483</u>	<u>3,064,542</u>	<u>159,226,025</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 167,439,178</u>	<u>\$ 3,876,293</u>	<u>\$ 171,315,471</u>
RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income	\$ 7,109,608	\$ 989,441	\$ 8,099,049
Change in Assets and Liabilities:			
Loans Receivable	(3,069,475)	-	(3,069,475)
Interest on Loans Receivable	1,169,036	-	1,169,036
Administrative Fee Receivable	-	1,380	1,380
Total Reconciling Adjustments	<u>(1,900,439)</u>	<u>1,380</u>	<u>(1,899,059)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,209,169</u>	<u>\$ 990,821</u>	<u>\$ 6,199,990</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2020**

<u>Federal Grantor/Pass through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Participating Expenditures</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs:				
Clean Water State Revolving Funds (CWSRF) Cluster				
Construction Loan, Administration - CS35000219	66.458	N/A	\$ -	\$ 539,343
Construction Loan, Construction - CS35000219	66.458	N/A	<u>7,779,000</u>	<u>7,779,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 7,779,000</u></u>	<u><u>\$ 8,318,343</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Fund under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Fund.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NONCASH ASSISTANCE

The Fund did not receive any federal noncash assistance during the year ended June 30, 2020.

LOANS

The Fund does not have any loans outstanding with the Federal government at June 30, 2020.

SUBRECIPIENTS

The Fund receives capitalization grants to create and maintain the Clean Water State Revolving Fund program (CWSRF, CFDA 66.458). The Fund can use the capitalization grants to provide loans at reduced interest rates to finance the construction of publicly-owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Loans made by the Fund may have a repayment period of up to 30 years, and all repayments, including interest and principal, must remain within the Wastewater Facility Construction Loans Fund of the Fund. Capitalization loans processed for CWSRF for the year ended June 30, 2020 were \$13,414,986. CWSRF outstanding loans at June 30, 2020 were \$178,554,054. The Fund provided in fiscal year 2020 \$1,171,131 in grants to various communities throughout New Mexico to subsidize their loans.

Of the \$7,779,000 represented in the Schedule of Expenditures of Federal Awards, \$581,097 was provided as a grant and \$7,197,903 was provided as loan disbursements. The amounts are included in the schedule of expenditures of federal awards as Construction Loan and Construction Grant (CFDA 66.458).

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 YEAR ENDED JUNE 30, 2020**

SUBRECIPIENTS (CONTINUED)

	Federal Grant	Federal Revolving Loan	Total
City of Hobbs	\$ -	\$ 2,599,831	\$ 2,599,831
Village of Los Lunas	-	1,676,515	1,676,515
Town of Grants	-	1,374,928	1,374,928
El Valle de Los Ranchos Water & Sanitation District	150,000	422,244	572,244
Rio Arriba County	112,274	405,152	517,426
Town of Peralta	-	209,684	209,684
Village of Tijeras	-	129,387	129,387
Incorporated County of Los Alamos	-	94,762	94,762
Southern Sandoval County Arroyo Flood Control	140,716	85,222	225,938
City of Santa Rosa	-	52,953	52,953
Estancia Valley Solid Waste Authority	-	37,874	37,874
Village of Cimarron	-	31,054	31,054
City of Anthony	-	30,718	30,718
Town of Springer	-	27,743	27,743
City of Bayard	45,095	11,921	57,016
City of Gallup	-	7,915	7,915
Village of Cuba	133,012	-	133,012
Total	<u>\$ 581,097</u>	<u>\$ 7,197,903</u>	<u>\$ 7,779,000</u>



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. James C. Kenney, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department and
Mr. Brian Colón, Esq., New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Clean Water State Revolving Fund (the Fund), of the New Mexico Environment Department (Department) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated November 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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.

Mr. James C. Kenney, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department and
Mr. Brian Colón, Esq., New Mexico State Auditor

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 2, 2020



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

Mr. James C. Kenney, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department and
Mr. Brian Colón, Esq., 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 (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended June 30, 2020. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Fund's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Mr. James C. Kenney, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department and
Mr. Brian Colón, Esq., New Mexico State Auditor

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, 2020.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



CliftonLarsonAllen LLP

Santa Fe, New Mexico
November 2, 2020

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2020**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA

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

Dollar threshold used for distinguishing between Type A and B programs: \$819,525*

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

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2020**

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings for the year ended June 30, 2020.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the year ended June 30, 2020.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2020**

There were no findings for the year ended June 30, 2019.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
EXIT CONFERENCE
JUNE 30, 2020**

An exit conference was held with the Department on November 2, 2020. 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

James C. Kenney	Cabinet Secretary
Jennifer J. Pruett	Deputy Secretary
Marlene Velasquez	Chief Financial Officer

CLIFTONLARSONALLEN LLP

Matt Bone, CPA, CGFM, CGMA	Engagement Principal
Jane Tinker, CPA	Engagement Director

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