



**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND**

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016



**CLEAN WATER STATE REVOLVING FUND
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INDEPENDENT AUDITOR'S REPORT

Mr. Butch Tongate, Cabinet Secretary
Clean Water State Revolving Fund of the
New Mexico Environment Department
and
Mr. Tim Keller, 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 year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents. We also have audited the combining statement of net position by functional activities, the combining statement of revenue, expenses, and changes in fund net position by functional activities, and the combining statements of cash flows of the Fund, presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Mr. Butch Tongate, Cabinet Secretary
Clean Water State Revolving Fund of the
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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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each combining statement of revenue, expenses, and changes in net position by functional activities, and each combining statement of cash flows of the Fund as of and for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position and changes in financial position of only that portion of the business-type activities, each major fund, and the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Fund. They do not purport to, and do not present fairly the financial position of the entire Department as of June 30, 2017, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Other Information

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

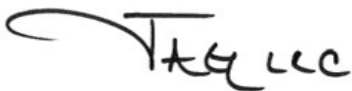
The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Period Financial Statements

The financial statements of the Fund as of and for the year ended June 30, 2016 were audited by other auditors whose report, dated November 28, 2016, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, 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.



Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
October 31, 2017

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2017 AND 2016**

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 years that ended June 30, 2017 and 2016. The CWSRF is also known as the Wastewater Facility Construction Loan Fund. This analysis is intended to serve as an introduction to the CWSRF basic financial statements and to provide an analytical overview of the fund's operations. CPB encourages readers to consider the information presented here in conjunction with additional information that was furnished in the CWSRF's annual report. The CPB recognizes Governmental Accounting Standards Board Statement No. 34. This statement establishes financial reporting requirements for state and local governments throughout the United States. This report is designed to provide New Mexico's legislators, citizens, taxpayers, customers, and federal government officials, with a general overview of the Fund's finances and the accounting of the monies it receives.

Financial Highlights

- As of the close of State Fiscal Year (SFY) 2017, the CWSRF reports a total net position of \$311,492,761, an increase of \$9,400,307 for CWSRF Fund 12100 and CWSRF Admin Fund 32700 combined. This 3.1% annual growth represents a healthy fund.
- The CWSRF was awarded one capitalization grant for the Federal Fiscal Year (FFY) 2016 in the amount of \$6,525,000.
- The CWSRF collected \$31,705,242 in loan repayment principal, \$3,526,210 in loan repayment interest, and \$314,582 in administrative loan fees. Total principal, interest and administrative fees received were \$35,546,034.
- The CWSRF fund earned \$807,503 of interest income on overnight funds deposited at the State Treasurer's Office for Fund 12100 and Fund 32700 combined.
- Fund 12100 disbursed \$23,194,426 for construction projects in SFY 2017.
- Fund 12100 incurred costs of \$478,324 in administrative expenses.

**NEW MEXICO ENVIRONMENT DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2017 AND 2016**

Condensed Financial Information (Government-Wide)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
NET POSITION			
ASSETS			
Current Assets	\$ 159,870,859	\$ 145,089,379	\$ 135,297,978
Non-Current Assets	<u>151,621,906</u>	<u>157,003,075</u>	<u>157,419,106</u>
TOTAL ASSETS	<u>\$ 311,492,765</u>	<u>\$ 302,092,454</u>	<u>\$ 292,717,084</u>
LIABILITIES			
Current Liabilities	\$ 4	\$ 32,142	\$ 4
NET POSITION			
Restricted	<u>311,492,761</u>	<u>302,060,312</u>	<u>292,717,080</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 311,492,765</u>	<u>\$ 302,092,454</u>	<u>\$ 292,717,084</u>
 CHANGES IN NET POSITION			
Program Revenues:			
Interest on Loans	\$ 2,501,432	\$ 3,044,704	\$ 3,132,581
Interest on Investments	807,503	286,838	100,691
Debt Service Fees	501,761	332,420	350,530
Other Revenue	1,251	-	-
General Revenues:			
Federal Award Programs	6,525,000	6,910,609	13,279,391
Grants to Other Organizations	(1,762,418)	(1,899,948)	1,300,000
State Appropriations	1,400,000	1,300,000	(1,449,280)
Transfers (06400) Admin Expenses	(542,080)	(265,102)	(69,497)
Total Revenues	<u>9,432,449</u>	<u>9,709,521</u>	<u>16,644,416</u>
Program Expenses:			
Administrative Expenses	-	(366,289)	(441,311)
CHANGE IN NET POSITION	9,432,449	9,343,232	16,203,105
Net Position - Beginning of Year	<u>302,060,312</u>	<u>292,717,080</u>	<u>276,513,975</u>
NET POSITION - END OF YEAR	<u>\$ 311,492,761</u>	<u>\$ 302,060,312</u>	<u>\$ 292,717,080</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2017 AND 2016**

Overview of the Financial Statements

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

With Fund 12100 representing more than 99.3% of the collective total of both funds, the discussion and analysis will focus on this enterprise fund. The notes to the financial statements address both funds.

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

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

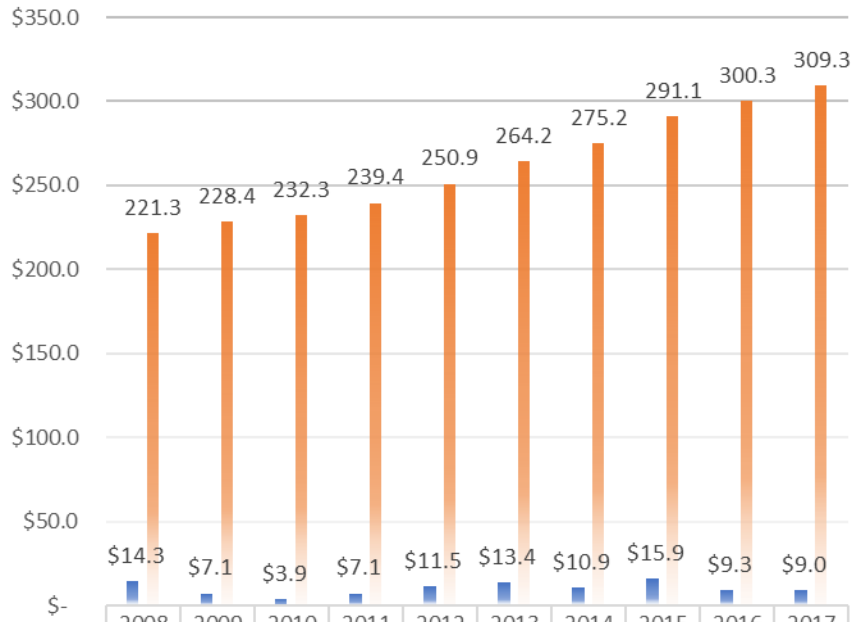
The statement of cash flows presents information that demonstrates how changes in balance sheet accounts and income affect cash and cash equivalents. The activity reflected from this statement is only recorded when cash was received or disbursed. Reconciliation is provided at the bottom of this statement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

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

Fund 12100 in the Statement of Net Position demonstrates that the fund grew by \$9 million during SFY 2017 and has shown consistent growth over the years. This chart represents both the cumulative growth of the fund balance, as well as each year's respective increases. The amounts are represented in millions of dollars.

**NEW MEXICO ENVIRONMENT DEPARTMENT
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NEW MEXICO CWSRF INCREASE IN FUND 121 NET POSITION (IN \$ MILLIONS)



■ Incr in Net Position in \$ millions	\$14.3	\$7.1	\$3.9	\$7.1	\$11.5	\$13.4	\$10.9	\$15.9	\$9.3	\$9.0
■ Net Position in \$ millions	221.3	228.4	232.3	239.4	250.9	264.2	275.2	291.1	300.3	309.3

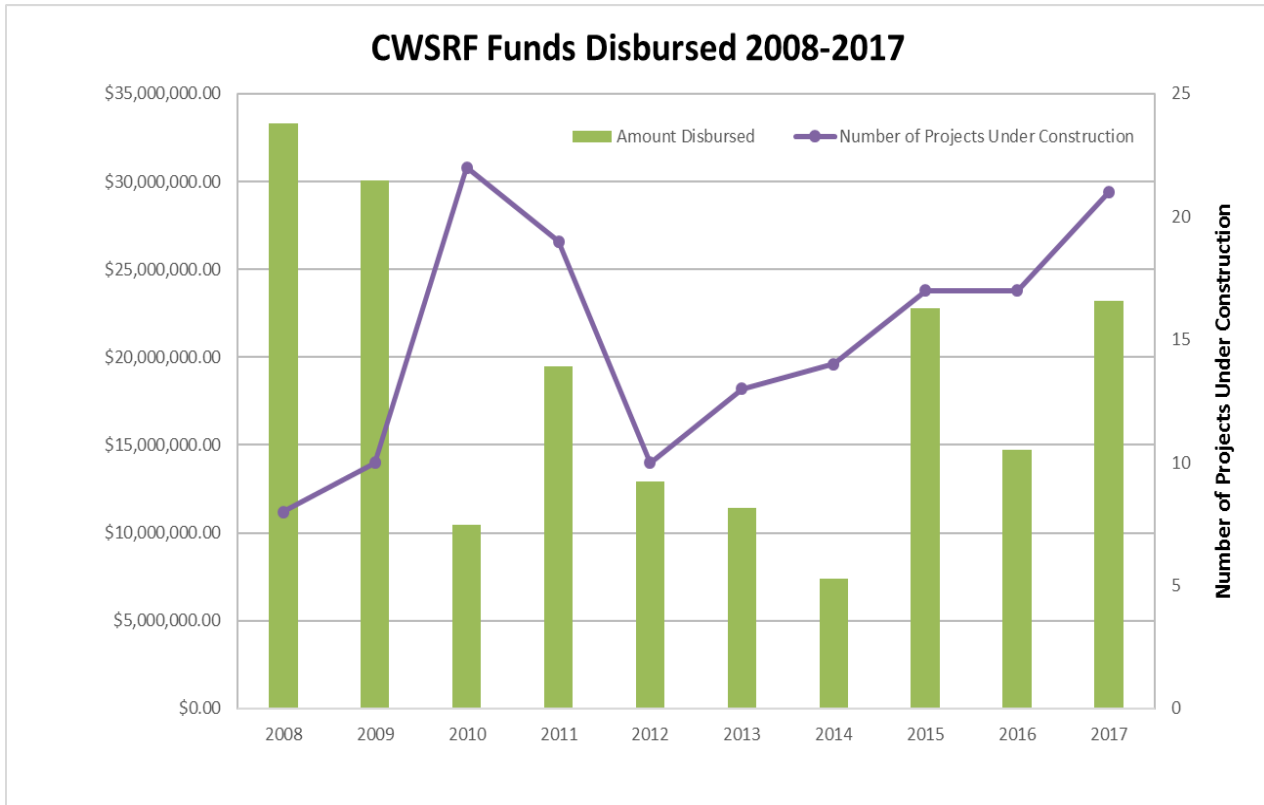
The growth of the Fund is attributable to multiple factors which include:

- ❖ 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 (averaging 2.5%);
- ❖ An absence of defaults and delinquent borrowers;
- ❖ Relatively low administrative expenses.

**NEW MEXICO ENVIRONMENT DEPARTMENT
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 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEARS ENDED JUNE 30, 2017 AND 2016**

Performance

As of the end of SFY 2017, the NM CWSRF has fully expended the FFY 2016 federal allotment. NM CWSRF had 21 projects in progress at the end of SFY 2017. The Fund disbursed \$23,194,426 to projects during SFY 2017.



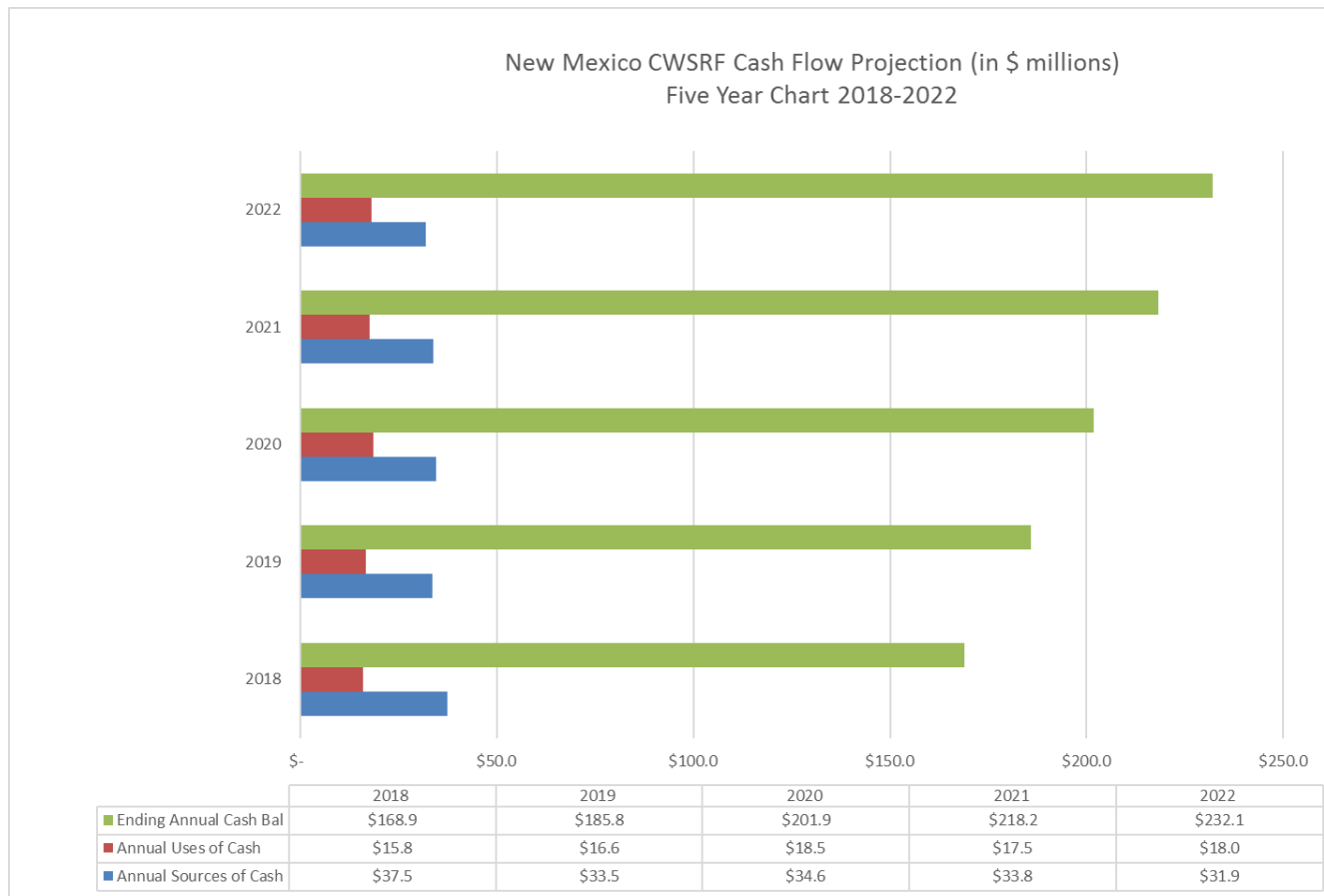
**NEW MEXICO ENVIRONMENT DEPARTMENT
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Projections

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

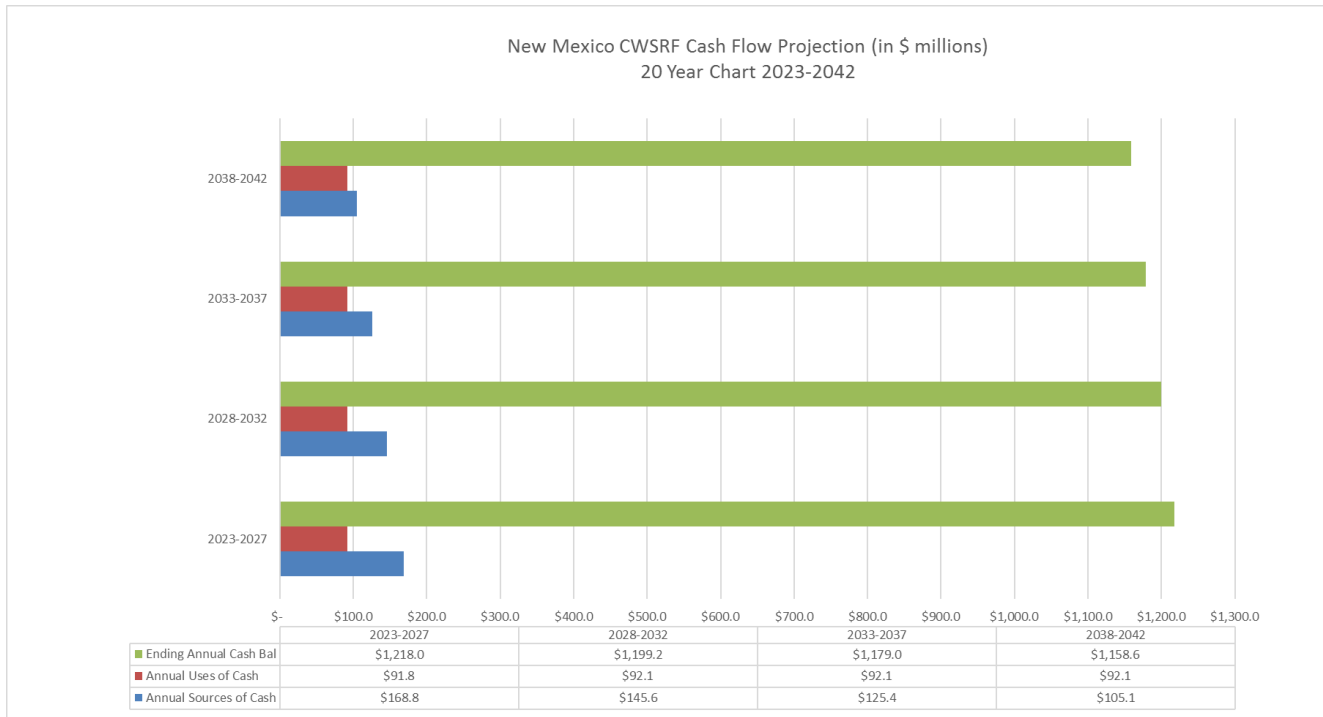
The five-year model and the twenty-year model demonstrate that from 2018 to 2042, the NM CWSRF has funding not only to support projected projects, but to increase funding where possible through enhanced outreach, CWSRF expanded eligibilities or other funding opportunities. The projected cash flow allows the CWSRF to continue to effectively execute loans for environmentally important construction projects needed in New Mexico.

Five-Year Cash Flow Projection



**NEW MEXICO ENVIRONMENT DEPARTMENT
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 YEARS ENDED JUNE 30, 2017 AND 2016**

Twenty-Year Cash Flow Projection



Economic Factors Affecting Fund Resources for Future Use

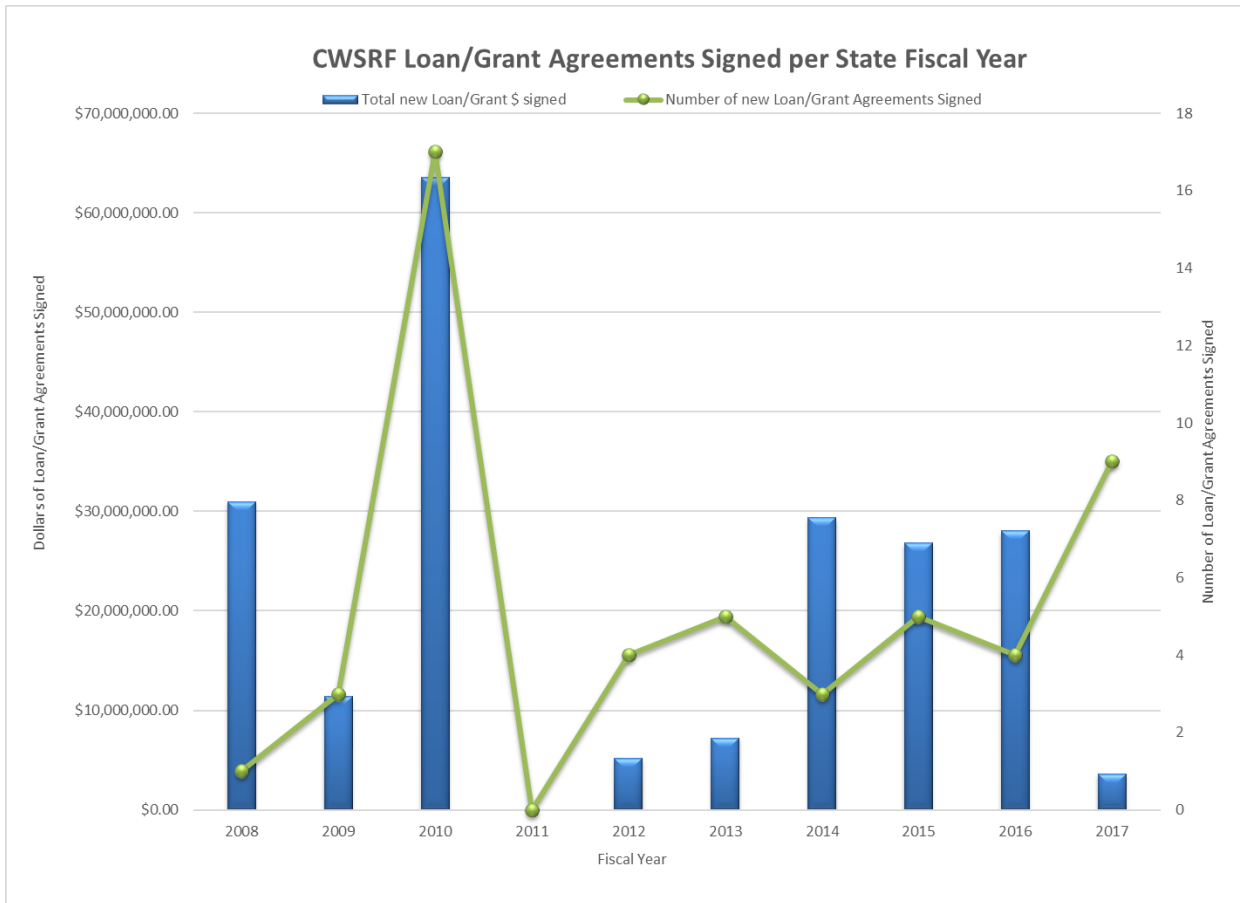
Through state funding, the CWSRF Program (Program) competes with and complements the Special Appropriation Program (SAP) and the Rural Infrastructure Program (RIP). The SAP provides communities with 100% grant funding via legislative Capital Outlay appropriations. SAP wastewater funding executed for 2017 totaled \$4,529,693. The RIP program provides loan and grant funding to rural communities. This program has an open application cycle and quick loan execution, but has population restrictions and a maximum loan amount of two million dollars per year. This program funded \$1.2 million in wastewater projects in SFY 2017. One project funded through RIP was co-funded with the CWSRF, providing maximum assistance to a community. Working with SAP and RIP provides opportunities to augment CWSRF funding to communities in need.

Through federal funding, the Program can provide communities with up to 30% of the federal grant awarded to NMED as additional subsidization. The FFY 2016 allotment also mandated an additional 10% of the award for use as additional subsidization. The Program provided total additional subsidization of \$1,964,025 in SFY 2017. Additional subsidization, combined with low interest rates, allows the Program to provide funding packages for projects that may otherwise be too expensive for the rural and economically challenged communities of New Mexico.

Interest earned on the Program's fund balance was up markedly in SFY 2017 over SFY 2016. Interest received in SFY 2017 was \$807,503 as opposed to \$291,877 in SFY 2016.

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEARS ENDED JUNE 30, 2017 AND 2016**

The NM CWSRF signed 8 new loan/grant agreements in SFY 2017 totaling \$9,328,386 and amended 1 existing agreement increasing the loan amount by \$250,000 for a total of \$9,578,386. However, the Program also had two existing agreements complete their projects under projected costs, decreasing total agreements by \$5,931,283. The CWSRF New Loan/Grant Agreement chart shows the amount and number of agreements signed over the last 10 years.



Factors Impacting Future Performance

CPB completed the Administrative process to lower interest rates in SFY 2017. The Program now offers rates from 0% to 2.375% based on hardship factors that include per capita income, median household income, user fees as a percent of income and population. CPB is working legislatively to open the Wastewater Facility Construction Act, the state law that implements the federal CWSRF, with the intent of expanding eligible projects and borrowers to fully encompass what is allowed in the Clean Water Act.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2017 AND 2016**

Requests for Information

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

FINANCIAL STATEMENTS

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
CURRENT ASSETS		
Investments in State General Fund		
Investment Pool	\$ 149,333,383	\$ 128,822,241
Receivables:		
Interest on Loans	2,890,909	3,915,687
Loan Receivables:		
Current Portion of Completed Projects		
Net of Origination Fees	7,459,388	12,351,451
Administrative Fee Receivable	187,179	-
Total Current Assets	159,870,859	145,089,379
LONG-TERM ASSETS		
Loan Receivables:		
Noncurrent Portion of Projects in Progress	61,511,123	61,409,195
Noncurrent Portion of Completed Projects,		
Net of Origination Fees	90,110,783	95,593,880
Total Noncurrent Assets	151,621,906	157,003,075
Total Assets	\$ 311,492,765	\$ 302,092,454
LIABILITIES		
Accounts Payable	4	4
Grants Payable	-	32,138
Total Liabilities	4	32,142
NET POSITION		
Restricted	311,492,761	302,060,312
Total Liabilities and Net Position	\$ 311,492,765	\$ 302,092,454

See Notes to Financial Statements.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES		
Interest on Loans	\$ 2,501,432	\$ 3,044,704
Interest on Investments	807,503	286,838
Debt Service Fees	501,761	332,420
Other Revenue	1,251	-
Total Revenues	<u>3,811,947</u>	<u>3,663,962</u>
EXPENSES		
Administrative Expenses	-	366,289
Total Expenses	<u>-</u>	<u>366,289</u>
OPERATING INCOME	<u>3,811,947</u>	<u>3,297,673</u>
NON-OPERATING REVENUES (EXPENSES)		
Federal Award Programs	6,525,000	6,910,609
Grants to Other Organizations	(1,762,418)	(1,899,948)
State Appropriations	1,400,000	1,300,000
Transfers (06400) Admin Expenses	(542,080)	(265,102)
Total Nonoperating Revenues	<u>5,620,502</u>	<u>6,045,559</u>
CHANGE IN NET POSITION	<u>9,432,449</u>	<u>9,343,232</u>
Total Net Position - Beginning	<u>302,060,312</u>	<u>292,717,080</u>
TOTAL NET POSITION - ENDING	<u>\$ 311,492,761</u>	<u>\$ 302,060,312</u>

See Notes to Financial Statements.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received on Repayment of Loan Principal	\$ 31,705,242	\$ 9,415,574
Cash Received on Interest from Loans	3,526,210	2,270,828
Interest Payments Received from State Treasurer's Office	807,503	295,556
Cash Received for Debt Service Fees	314,582	332,420
Cash (Paid) Received for Other	1,251	-
Cash Payments Made for Administrative Expenses	-	(334,151)
Cash Payments Made to Borrowers	<u>(21,432,010)</u>	<u>(12,848,694)</u>
Net Cash Provided (Used) by Operating Activities	<u>14,922,778</u>	<u>(868,467)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant Proceeds - EPA	6,525,000	6,910,609
Grants to Other Organizations	(1,794,556)	(1,867,810)
State Appropriations	1,400,000	1,300,000
Cash Payments for Administrative Expenses, Net	<u>(542,080)</u>	<u>(114,182)</u>
Net Cash Provided by Noncapital Financing Activities	<u>5,588,364</u>	<u>6,228,617</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	20,511,142	5,360,150
 Cash and Cash Equivalents - Beginning of Year	<u>128,822,241</u>	<u>123,462,091</u>
 Cash and Cash Equivalents - End of Year	<u><u>\$ 149,333,383</u></u>	<u><u>\$ 128,822,241</u></u>
 RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	<u>\$ 3,811,947</u>	<u>\$ 3,297,673</u>
Change in Assets and Liabilities:		
Loans Receivable	10,273,232	(3,400,982)
Interest on Loans Receivable	1,024,778	(773,876)
Due from Other State Agencies	-	8,718
Other Receivables	<u>(187,179)</u>	<u>-</u>
Total Reconciling Adjustments	<u>11,110,831</u>	<u>(4,166,140)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 14,922,778</u></u>	<u><u>\$ (868,467)</u></u>

See Notes to Financial Statements.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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% 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 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.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

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 GAAP. The Fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

Net Position. The Fund Financial Statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted. There is no net investment in capital assets or unrestricted net position at June 30, 2017 and 2016.

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, 2017 and 2016. Net position is restricted for future loans for waste water projects and the administration of the Fund.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in State General Fund Investment Pool. New Mexico state law requires that the Fund's investments be managed by the New Mexico State Treasurer's Office. Accordingly, the Fund's investments consist of investments in the New Mexico State Treasurer's Office General Fund Investment Pool. Investment maturities within the pool range from one day to three years. The fair value of the Fund's investment in the pool at June 30, 2017 and 2016 was \$149,333,383 and \$128,822,241, respectively. The Fund does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The New Mexico State Treasurer's Office General Fund Investment Pool is not rated. For additional GASB 40 disclosure information related to the New Mexico State Treasurer's Office General Fund Investment Pool, the reader should refer to the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2017.

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.

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, 2017 and 2016.

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, 2017.

Loans Receivable. The Fund is operated as a direct loan program, whereby the total loan amount made to communities is funded 80% by the Federal capitalization grant and 20% 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.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Budgets. Loan activities are not subject to a budget. 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.

Reclassifications. Certain reclassifications were made to 2016 information to conform to 2017 presentation.

NOTE 3. STATE GENERAL FUND INVESTMENT POOL

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

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

The State Controller indicated on August 8, 2016 that calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months; resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP and that all claims will be honored at face value.

The Fund has established daily and monthly procedures that mitigate the risk of misstatement of the Fund's balances within the Pool. In addition, as required by Section 65-2.1 (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.

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016**

NOTE 4. LOANS RECEIVABLE

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

	2017	2016
Loans-Projects in Progress	\$ 61,511,123	\$ 61,409,195
Accrued Interest	1,933,091	2,847,710
Total Loans in Progress	\$ 63,444,214	\$ 64,256,905
Loans in Repayment-Completed Projects	\$ 97,570,171	\$ 107,945,331
Accrued Interest	957,818	1,067,977
Total Completed Loans	\$ 98,527,989	\$ 109,013,308

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 September 12, 2036.

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

	2017	2016
City of Portales	\$ 24,712,705	\$ 23,244,698
City of Rio Rancho	-	19,030,228
City of Carlsbad	17,537,021	16,206,939
City of Farmington	14,016,977	-
City of Aztec	2,111,513	-
SSCAFCA	-	1,250,000
City of Belen	-	768,870
El Valle De Los Ranchos	1,128,643	396,316
Village of Grants	770,954	-
City of Socorro	363,446	231,508
San Juan County	344,444	-
City of Las Vegas	336,893	174,016
Village of Taos Ski Valley	188,527	106,620
Total	\$ 61,511,123	\$ 61,409,195

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

NOTE 4. LOANS RECEIVABLE (CONTINUED)

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

	<u>2017</u>	<u>2016</u>
Hobbs	\$ 23,262,025	\$ 24,689,720
Los Lunas	15,738,086	17,058,839
Los Alamos County	10,439,833	11,087,869
Las Vegas	9,369,691	10,182,019
Farmington	7,420,139	8,129,259
Clovis	5,230,814	5,652,243
Espanola	4,214,484	4,744,379
Lovington	4,035,063	4,304,535
Aztec	3,233,766	3,470,146
Dona Ana County	3,164,815	3,437,048
Belen	2,156,150	1,602,888
Bloomfield	1,461,193	1,600,834
SSCAFCA	1,250,000	-
City of Socorro	1,047,638	1,239,913
Town of Taos	960,000	1,020,000
Taos Ski Valley	941,324	1,021,044
Bayard	827,625	892,236
Grants	400,667	793,477
El Valle de Los Ranchos	375,839	394,251
Santa Rosa	350,000	375,000
Elephant Butte	345,471	366,674
Sandoval County	318,589	332,803
Logan	253,249	271,338
Eagle Nest	160,466	168,842
Jemez Springs	120,114	125,472
Other Communities	103,744	117,305
Ruidoso Downs	74,038	78,582
San Miguel	73,446	77,610
Wagon Mound	71,754	76,879
Tucumcari	70,000	75,000
Chama	61,184	100,000
Raton	38,964	67,611
Rio Rancho	-	4,391,515
Total	<u>\$ 97,570,171</u>	<u>\$ 107,945,331</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016**

NOTE 4. LOANS RECEIVABLE (CONTINUED)

Mortgage loans are paid in annual installments, including interest, ranging from \$2,495 to \$1,921,489 through September 12, 2036.

The following is a schedule of future annual payments including principal, interest and administrative fee, as of June 30, 2017:

(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>
2018	\$ 7,459,388	\$ 1,618,023	\$ 303,536	\$ 9,380,947
2019	7,222,708	1,706,691	284,072	9,213,471
2020	7,329,415	1,569,166	263,799	9,162,380
2021	7,490,076	1,429,245	243,058	9,162,379
2022	7,633,488	1,285,837	221,839	9,141,164
2023 and Thereafter	60,435,096	5,151,830	986,340	66,573,266
Completed Projects Totals	<u>\$ 97,570,171</u>	<u>\$ 12,760,792</u>	<u>\$ 2,302,644</u>	<u>\$ 112,633,607</u>

NOTE 5. LOAN COMMITMENTS

As of June 30, 2017 and 2016, the Fund executed binding commitments to disburse loans from the Fund in the amount of \$3,647,103 and \$28,033,000, respectively.

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016**

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, 2017 that have been allocated to the Fund since its inception.

Award Year	Federal Capitalization Grants	State Matching Appropriations
1986	\$ -	\$ 2,000,000
1987	-	1,125,000
1988	5,809,763	2,800,300
1989	8,558,400	-
1990	6,345,400	1,600,000
1991	10,075,032	1,000,000
1992	9,534,900	-
1993	9,431,000	2,000,000
1994	5,813,800	2,000,000
1995	6,007,800	1,979,710
1996	9,904,653	1,712,205
1997	2,990,500	-
1998	6,577,300	1,500,000
1999	6,577,900	1,320,000
2000	6,555,200	-
2001	-	-
2002	6,496,100	2,000,000
2003	6,510,800	-
2004	6,467,800	4,500,000
2005	6,835,400	1,500,000
2006	5,243,500	1,500,000
2007	4,242,300	1,500,000
2008	5,207,300	1,500,000
2009	3,274,300	-
2010	3,274,300	660,000
2011	10,002,000	-
2012	7,222,000	1,444,400
2013	6,908,000	2,800,000
2014	6,520,000	-
2015	6,853,000	1,300,000
2016	6,817,000	1,300,000
2017	6,525,000	1,400,000
Total	<u>\$ 192,580,448</u>	<u>\$ 40,441,615</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

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

As of June 30, 2017 and 2016, the State of New Mexico has overmatched the Fund by \$2,719,585 and \$1,791,525, respectively. This overmatch will be applied to future federal grant awards as part of the 20% required match. In addition, the Fund was awarded \$23,789,100 in ARRA funds not subject to the 20% state match.

NOTE 7. ADMINISTRATIVE EXPENSES

Since the inception of the Fund, administrative expenses have been drawn from the federal capitalization grant allotments of 100% because state matching appropriations were spent first for loans. For fiscal years ended June 30, 1997 and 1998, the Department changed its policy regarding the administrative fees and began drawing down the federal grants at 83.3% and from the State matching appropriations at 16.7%. A retroactive calculation was made to determine the state match to be used for administrative expenses for these two years. Subsequent to fiscal year ended June 30, 1999, management decided to draw expenses 100% from the federal capitalization grant allotments and make this retroactive to inception. As of June 30, 2008, administrative expenses were drawn down 100% from the federal capitalization grant and the Fund plans to consistently draw using this method for future years. Irrespective of the administrative draw method used, the Fund has never drawn Federal funds in excess of an overall ratio of 83.3% federal capitalization grants and 16.7% State of New Mexico. The Fund has drawn \$8,146,688 in administrative costs since its inception through June 30, 2016. This amount is within the 4% limit imposed by the EPA capitalization grants. Beginning with fiscal year 2017, the administrative expenses are now paid from net position and are limited by 1/5th of 1% of net position of the most recent audited financial statements. Therefore, beginning in fiscal year 2017, administrative expenses are reported as nonoperating expenses for Fund 12100.

NOTE 8. CONTINGENCIES

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

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

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

NOTE 9. FUNDS AT AUTOMATED CLEARING HOUSE (ACH)

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

As of June 30, 2017, and 2016, balances at the ACH are as follows:

	2017	2016
Balance at Beginning of Year	\$ -	\$ 151,557
Amounts Released to ACH During Year	6,525,000	6,817,000
Drawdowns for Loans	(6,525,000)	(6,602,268)
Drawdowns for Administrative Expenses	-	(366,289)
Total	\$ -	\$ -

The 2016 financial statements originally reported \$57,948 released to the ACH but not yet spent and therefore not recognized as earned by the Fund. The 2016 balances were restated as the balance of \$57,948 was expensed and drawn during fiscal year 2016, leaving a zero balance to carry forward to 2017.

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:

	2017	2016
Restricted for:		
Future Loans	\$ 309,327,889	\$ 300,344,024
Administration of the Wastewater Facility Construction Loan Fund	2,164,872	1,716,288
Total	\$ 311,492,761	\$ 302,060,312

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017 AND 2016**

NOTE 11. ACCRUED INTEREST RECEIVABLE

Changes in accrued interest receivable for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Beginning of Year	\$ 3,915,687	\$ 3,141,811
Interest Earned	2,816,014	3,044,704
Interest Received	<u>(3,840,792)</u>	<u>(2,270,828)</u>
End of Year	<u>\$ 2,890,909</u>	<u>\$ 3,915,687</u>

SUPPLEMENTARY INFORMATION

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF NET POSITION BY FUNCTIONAL ACTIVITIES
JUNE 30, 2017**

	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	Total
ASSETS			
CURRENT ASSETS			
Investments in State General Fund			
Investment Pool	\$ 147,355,690	\$ 1,977,693	\$ 149,333,383
Receivables:			
Interest on Loans	2,890,909	-	2,890,909
Loan Receivables:			
Current Portion of Completed Projects, Net of Origination Fees	7,459,388	-	7,459,388
Administrative Fee Receivable	-	187,179	187,179
Total Current Assets	<u>157,705,987</u>	<u>2,164,872</u>	<u>159,870,859</u>
LONG-TERM ASSETS			
Loan Receivables:			
Noncurrent Portion of Projects in Progress	61,511,123	-	61,511,123
Noncurrent Portion of Completed Projects, Net of Origination Fees	90,110,783	-	90,110,783
Total Noncurrent Assets	<u>151,621,906</u>	<u>-</u>	<u>151,621,906</u>
Total Assets	<u>\$ 309,327,893</u>	<u>\$ 2,164,872</u>	<u>\$ 311,492,765</u>
LIABILITIES			
Accounts Payable	\$ 4	-	4
Grants Payable	-	-	-
Total Liabilities	<u>4</u>	<u>-</u>	<u>4</u>
NET POSITION			
Restricted	<u>309,327,889</u>	<u>2,164,872</u>	<u>311,492,761</u>
Total Liabilities and Net Position	<u>\$ 309,327,893</u>	<u>\$ 2,164,872</u>	<u>\$ 311,492,765</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF NET POSITION BY FUNCTIONAL ACTIVITIES
JUNE 30, 2016**

	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
CURRENT ASSETS			
Investments in State General Fund			
Investment Pool	\$ 127,105,953	\$ 1,716,288	\$ 128,822,241
Receivables:			
Interest on Loans	3,915,687	-	3,915,687
Loan Receivables:			
Current Portion of Completed Projects		-	-
Net of Origination Fees	12,351,451	-	12,351,451
Administrative Fee Receivable	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Assets	<u>143,373,091</u>	<u>1,716,288</u>	<u>145,089,379</u>
LONG-TERM ASSETS			
Loan Receivables:			
Noncurrent Portion of Projects in Progress	61,409,195	-	61,409,195
Noncurrent Portion of Completed Projects, Net of Origination Fees	<u>95,593,880</u>	<u>-</u>	<u>95,593,880</u>
Total Noncurrent Assets	<u>157,003,075</u>	<u>-</u>	<u>157,003,075</u>
Total Assets	<u>\$ 300,376,166</u>	<u>\$ 1,716,288</u>	<u>\$ 302,092,454</u>
LIABILITIES			
Accounts Payable	\$ 4	\$ -	\$ 4
Grants Payable	<u>32,138</u>	<u>-</u>	<u>32,138</u>
Total Liabilities	<u>32,142</u>	<u>-</u>	<u>32,142</u>
NET POSITION			
Restricted	<u>300,344,024</u>	<u>1,716,288</u>	<u>302,060,312</u>
Total Liabilities and Net Position	<u>\$ 300,376,166</u>	<u>\$ 1,716,288</u>	<u>\$ 302,092,454</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
FUND NET POSITION BY FUNCTIONAL ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	Total
REVENUES			
Interest on Loans	\$ 2,501,432	\$ -	\$ 2,501,432
Interest on Investments	798,175	9,328	807,503
Debt Service Fees	-	501,761	501,761
Other income	-	1,251	1,251
Total Revenues	<u>3,299,607</u>	<u>512,340</u>	<u>3,811,947</u>
EXPENSES			
Administrative Expenses	-	-	-
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>
OPERATING INCOME	3,299,607	512,340	3,811,947
NON-OPERATING REVENUES (EXPENSES)			
Federal Award Programs	6,525,000	-	6,525,000
Grants to Other Organizations	(1,762,418)	-	(1,762,418)
State Appropriations	1,400,000	-	1,400,000
Transfers (06400) Admin Expenses	(478,324)	(63,756)	(542,080)
Total Non-Operating Revenues (Expenses)	<u>5,684,258</u>	<u>(63,756)</u>	<u>5,620,502</u>
CHANGE IN NET POSITION	8,983,865	448,584	9,432,449
Total Net Position - Beginning	<u>300,344,024</u>	<u>1,716,288</u>	<u>302,060,312</u>
TOTAL NET POSITION - ENDING	<u>\$ 309,327,889</u>	<u>\$ 2,164,872</u>	<u>\$ 311,492,761</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
FUND NET POSITION BY FUNCTIONAL ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	Total
OPERATING REVENUES			
Interest on Loans	\$ 3,044,704	\$ -	\$ 3,044,704
Interest on Investments	283,264	3,574	286,838
Debt Service Fees	-	332,420	332,420
Total Operating Revenues	<u>3,327,968</u>	<u>335,994</u>	<u>3,663,962</u>
OPERATING EXPENSES			
Administrative Expenses	<u>366,289</u>	-	<u>366,289</u>
Total Operating Expenses	<u>366,289</u>	-	<u>366,289</u>
OPERATING INCOME	2,961,679	335,994	3,297,673
NON-OPERATING REVENUES (EXPENSES)			
Federal Award Programs	6,910,609	-	6,910,609
Grants to Other Organizations	(1,899,948)	-	(1,899,948)
State Appropriations	1,300,000	-	1,300,000
Transfers (06400) Admin Expenses	-	(265,102)	(265,102)
Total Non-Operating Revenues (Expenses)	<u>6,310,661</u>	<u>(265,102)</u>	<u>6,045,559</u>
CHANGE IN NET POSITION	9,272,340	70,892	9,343,232
Total Net Position - Beginning	<u>291,071,684</u>	<u>1,645,396</u>	<u>292,717,080</u>
TOTAL NET POSITION - ENDING	<u>\$ 300,344,024</u>	<u>\$ 1,716,288</u>	<u>\$ 302,060,312</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received on Repayment of Loan Principal	\$ 31,705,242	\$ -	\$ 31,705,242
Cash Received on Interest from Loans	3,526,210	-	3,526,210
Interest Payments Received from State Treasurer's Office	798,175	9,328	807,503
Cash Received for Debt Service Fees	-	314,582	314,582
Cash Received for Other	-	1,251	1,251
Cash Payments Made for Administrative Expenses	-	-	-
Cash Payments Made to Borrowers	(21,432,010)	-	(21,432,010)
Net Cash Provided by Operating Activities	<u>14,597,617</u>	<u>325,161</u>	<u>14,922,778</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grant Proceeds - EPA	6,525,000	-	6,525,000
Grants to Other Organizations	(1,794,556)	-	(1,794,556)
State Appropriations	1,400,000	-	1,400,000
Cash Payments for Administrative Expenses, Net	(478,324)	(63,756)	(542,080)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>5,652,120</u>	<u>(63,756)</u>	<u>5,588,364</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,249,737	261,405	20,511,142
Cash and Cash Equivalents - Beginning of Year	<u>127,105,953</u>	<u>1,716,288</u>	<u>128,822,241</u>
Cash and Cash Equivalents - End of Year	<u>\$ 147,355,690</u>	<u>\$ 1,977,693</u>	<u>\$ 149,333,383</u>
RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income	\$ 3,299,607	\$ 512,340	\$ 3,811,947
Change in Assets and Liabilities:			
Loans Receivable	10,273,232	-	10,273,232
Interest on Loans Receivable	1,024,778	-	1,024,778
Administrative Fee Receivable	-	(187,179)	(187,179)
Total Reconciling Adjustments	<u>11,298,010</u>	<u>(187,179)</u>	<u>11,110,831</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 14,597,617</u>	<u>\$ 325,161</u>	<u>\$ 14,922,778</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016**

	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received on Repayment of Loan Principal	\$ 9,415,574	\$ -	\$ 9,415,574
Cash Received on Interest from Loans	2,270,828	-	2,270,828
Interest Payments Received from State Treasurer's Office	291,877	3,679	295,556
Cash Received for Debt Service Fees	-	332,420	332,420
Cash Payments Made for Administrative Expenses	(334,151)	-	(334,151)
Cash Payments Made to Borrowers	<u>(12,848,694)</u>	<u>-</u>	<u>(12,848,694)</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,204,566)</u>	<u>336,099</u>	<u>(868,467)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grant Proceeds - EPA	6,910,609	-	6,910,609
Grants to Other Organizations	(1,867,810)	-	(1,867,810)
State Appropriations	1,300,000	-	1,300,000
Cash Payments for Administrative Expenses, Net	<u>-</u>	<u>(114,182)</u>	<u>(114,182)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>6,342,799</u>	<u>(114,182)</u>	<u>6,228,617</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,138,233	221,917	5,360,150
Cash and Cash Equivalents - Beginning of Year	<u>121,967,720</u>	<u>1,494,371</u>	<u>123,462,091</u>
Cash and Cash Equivalents - End of Year	<u>\$ 127,105,953</u>	<u>\$ 1,716,288</u>	<u>\$ 128,822,241</u>
RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income	<u>\$ 2,961,679</u>	<u>\$ 335,994</u>	<u>\$ 3,297,673</u>
Change in Assets and Liabilities:			
Loans Receivable	(3,400,982)	-	(3,400,982)
Interest on Loans Receivable	(773,876)	-	(773,876)
Due from Other State Agencies	<u>8,613</u>	<u>105</u>	<u>8,718</u>
Total Reconciling Adjustments	<u>(4,166,245)</u>	<u>105</u>	<u>(4,166,140)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (1,204,566)</u>	<u>\$ 336,099</u>	<u>\$ (868,467)</u>

SINGLE AUDIT

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2017**

<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, Construction/Grant - CS35000216	66.458	N/A	<u>\$ 6,525,000</u>	<u>\$ 6,525,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 6,525,000</u></u>	<u><u>\$ 6,525,000</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, 2017**

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, 2017. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Fund.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NON-CASH ASSISTANCE

The Fund did not receive any federal non-cash assistance during the year ended June 30, 2017.

LOANS

The Fund does not have any loans outstanding with the Federal government at June 30, 2017.

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, 2017 were \$21,432,010. CWSRF outstanding loans at June 30, 2017 were \$159,081,294. The Fund provided in fiscal year 2017 \$1,762,418 in grants to various communities throughout New Mexico to subsidize their loans.

Of the \$6,525,000 represented in the Schedule of Expenditures of Federal Awards, \$746,963 was provided as grant and \$5,778,037 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, 2017**

SUBRECIPIENTS (CONTINUED)

	Fiscal Year 2017 Federal Grant	Fiscal Year 2017 Federal Revolving Loan	Total
City of Aztec	\$ -	\$ 793,350	\$ 793,350
City of Carlsbad	-	684,921	684,921
City of Farmington	-	3,375,317	3,375,317
City of Grants	630,000	126,401	756,401
City of Las Vegas	-	2,546	2,546
El Valle de Los Ranchos	-	645,130	645,130
San Juan County	-	150,372	150,372
Taos Ski Valley	116,963	-	116,963
	<u>\$ 746,963</u>	<u>\$ 5,778,037</u>	<u>\$ 6,525,000</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Butch Tongate, Cabinet Secretary
New Mexico Environment Department
and
Mr. Tim Keller, 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 (Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and the combining statements of net position by functional activities, combining statements of revenue, expenses, and changes in fund net position by functional activities, and the combining statements of cash flows of the Fund, presented as supplementary information, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

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

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

Mr. Butch Tongate, Cabinet Secretary
New Mexico Environment Department
and
Mr. Tim Keller, New Mexico State Auditor

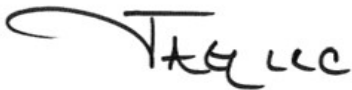
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
October 31, 2017



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

Mr. Butch Tongate, Cabinet Secretary
New Mexico Environment Department
and
Mr. Tim Keller, 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, 2017. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Mr. Butch Tongate, Cabinet Secretary
New Mexico Environment Department
and
Mr. Tim Keller, 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, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
October 31, 2017

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

NONE

**NEW MEXICO ENVIRONMENT DEPARTMENT
 CLEAN WATER STATE REVOLVING FUND
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2017**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no

- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

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

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

Identification of major programs:

CFDA

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

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.

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**NEW MEXICO ENVIRONMENT DEPARTMENT
CLEAN WATER STATE REVOLVING FUND
EXIT CONFERENCE
JUNE 30, 2017**

An exit conference was held with the Department on October 31, 2017. 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

J.C. Borrego	Acting Deputy Secretary
Marlene Cordova	Chief Financial Officer
Alysia Leavitt	Water Resource Protection Division, Program Financial Manager

JARAMILLO ACCOUNTING GROUP LLC (JAG)

Audrey Jaramillo, CPA, CFE	Partner
Scott Eliason, CPA	Partner
Phillip Gonzales, CGFM	Senior

Jaramillo Accounting Group (JAG) 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.