

STATE OF NEW MEXICO ENVIRONMENT DEPARTMENT



ANNUAL FINANCIAL STATEMENTS AND SCHEDULES WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018



**NEW MEXICO ENVIRONMENT DEPARTMENT
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2018**

OFFICIAL ROSTER	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	5
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	16
STATEMENT OF ACTIVITIES	18
BALANCE SHEET - GOVERNMENTAL FUNDS	20
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	21
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	22
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	23
STATEMENT OF REVENUES AND EXPENDITURES – MAJOR GOVERNMENTAL FUNDS - BUDGET AND ACTUAL (BUDGETARY BASIS)	24
STATEMENT OF NET POSITION – PROPRIETARY FUNDS	28
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS	29
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	30
NOTES TO FINANCIAL STATEMENTS	32
SUPPLEMENTARY INFORMATION	
NON-MAJOR GOVERNMENTAL FUNDS DESCRIPTIONS	63
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS	66
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS	71
OTHER INFORMATION	
SCHEDULE 1 – SUPPLEMENTAL SCHEDULE OF SEVERANCE TAX BOND APPROPRIATION REVENUE	76
SCHEDULE 3 – SUPPLEMENTAL SCHEDULE OF SPECIAL APPROPRIATIONS	77
COMPLIANCE SECTION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	78
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	81
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 <i>GOVERNMENT AUDITING STANDARDS</i>	83
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	85
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	88
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	89
CORRECTIVE ACTION PLAN (UNAUDITED)	97
EXIT CONFERENCE	100

**NEW MEXICO ENVIRONMENT DEPARTMENT
OFFICIAL ROSTER
JUNE 30, 2018**

Office of the Secretary

Butch Tongate, Cabinet Secretary

Juan Carlos Borrego, Deputy Secretary

Division Directors

Juan Carlos Borrego, Acting ASD Director (June)

Mary Montoya, Information Technology Division

Juan Carlos Borrego, Acting Resource Protection Director

Bruce Yurdin, Water Protection Division

Juan Carlos Borrego, Acting Environmental Protection Director



Wayne A. Johnson
State Auditor

C. Jack Emmons, CPA, CFE
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Mr. Butch Tongate
New Mexico Environment Department

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and the major special revenue funds of the New Mexico Environment Department (the Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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.

2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507
Phone (505) 476-3800 Fax (505) 827-3512
www.osanm.org 1-866-OSA-FRAUD

Mr. Butch Tongate
New Mexico Environment Department

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 governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparisons of the general fund and major special revenue funds of the Department as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and the major special revenue 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 Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, business-type activities, each major fund, the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2018, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 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 Department's basic financial statements. The combining and individual nonmajor fund financial statements, 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 is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the combining non-major fund financial statements, and the other schedules required by Section 2.2.2 NMAC as listed in the table of contents as Supplemental Schedule of Severance Tax Bond Appropriation Revenue (Schedule 1), and Supplemental Schedule of Special Appropriations (Schedule 2), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Mr. Butch Tongate
New Mexico Environment Department

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards and the other schedules required by Section 2.2.2 NMAC as listed in the table of contents as Supplemental Schedule of Severance Tax Bond Appropriation Revenue (Schedule 1), and Supplemental Schedule of Special Appropriations (Schedule 2) 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards and the schedules required by Section 2.2.2 NMAC as listed in the table of contents Supplemental Schedule of Severance Tax Bond Appropriation Revenue (Schedule 1), and Supplemental Schedule of Special Appropriations (Schedule 2), 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 October 30, 2018, on our consideration of the Department'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 Department's internal control over financial reporting and compliance.



Office of the State Auditor
October 30, 2018

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

Executive Summary

The management of the State of New Mexico Environment Department (the Department) is pleased to present the *Management's Discussion and Analysis (MD&A)* of its financial statements for the fiscal year ended June 30, 2018. This overview and analysis summarizes the Department's financial activities and operations for the state fiscal year 2018, which is the period between July 1, 2017 and June 30, 2018 (*FY18*). This report is targeted at consumers of financial information including state legislators, citizens, federal entities and the public. It contains a synopsis of operational highlights for the four budgetary programs within the Department in accordance with the laws it is charged to administer and enforce.

The Department encourages readers to consider the MD&A information in conjunction with the financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements, which include five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) other supplemental information and schedules, and 5) single audit of federal programs.

Government-wide Financial Statements. The government-wide financial statements are designed to be corporate-like in that the governmental and business-type activities are consolidated into columns that add to a total for the primary government and consist of a Statement of Net Position and a Statement of Activities. These statements should report all of the assets, liabilities, revenues, expenses and gains and losses of the government. Both statements distinguish between the governmental and business-type activities of the primary government. Fiduciary activities whose resources are not available to finance the government's program are excluded from the government-wide statements.

The government-wide financial statements of the Department are divided into two categories:

Governmental Activities. Most of the Department's basic services are included in the governmental activities. State appropriations, federal grants and special revenue fund appropriations finance the Department's activities. The funds included in Governmental Activities for the Department are the General Operating Fund, various special revenue and capital project funds and various federal grant activities. The Department has classified four funds as major funds: the General Fund, the Corrective Action Fund, the Air Quality Title V Fund and one Capital Project Fund.

Business-type Activities. The Department's Wastewater Facility Construction Loan Fund, the Clean Water Administrative Fund and the Rural Infrastructure Revolving Loan Fund comprise the Department's business-type activities. The Wastewater Facility Construction Loan Fund and the Rural Infrastructure Revolving Loan Fund provide low interest rate loans to communities throughout the state for water and wastewater treatment and delivery infrastructure projects. The Clean Water Administrative Fund is used to administer the Wastewater Facility Construction Loan Fund.

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

Fund Financial Statements. Fund financial statements consist of a series of statements that focus on information about the major governmental and enterprise funds. Fund financial statements also report information about a government's fiduciary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. The Department has three types of funds: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Most of the Department's services are included in governmental funds, which focus on (a) how cash and other financial assets that can be readily converted to cash flow in and out, and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view and help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.

Proprietary Funds. The Wastewater Facility Construction Loan Fund, the Clean Water Administrative Fund, and the Rural Infrastructure Fund have been classified as proprietary funds. The funds provide low interest loans to communities throughout the State for water and wastewater treatment and delivery infrastructure projects. Proprietary funds, like the government-wide statements, provide both long and short-term information.

Fiduciary Fund. Fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support the Department's programs. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds. Prior to FY 17 the Penalties Fund was classified as a Fiduciary or Agency fund because the assets and liabilities presented do not belong to the Department. However these amounts do belong to the State. In FY17 the Department of Finance and Administration required all state agencies to change these types of fund to governmental funds because they contain financial information of the State. At this time the only amounts contained in fiduciary funds are amounts that are not property of the State. Due to this change NMED no longer has any fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

As required by the Office of the State Auditor under 2.2.2 NMAC (the State Auditor Rule), the Statement of Revenues and Expenditures – Budget to Actuals for non-major funds are no longer required to be included separately, however, they are included in the governmental activities in the presentation of the financial statements as "Other Governmental Funds". The budgetary comparisons statements for only the general fund and major special revenue funds that have legally adopted annual budgets will be presented on the financial statements.

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

Department Highlights

The Department's mission is to protect and restore the environment, and to foster a healthy and prosperous New Mexico for present and future generations. NMED is committed to providing clear articulation of the agency's goals, standards and expectations in a professional manner so that employees and the public can make informed decisions and be actively involved in setting priorities. Additionally, NMED promotes environmental awareness through the practice of open and direct communication and sound decision-making by carrying out the mandates and initiatives of the Department in a fair and consistent manner.

During fiscal year 2018, the Department operated with four divisions within four budgetary programs. Through these programs, which include Resource Management (P567), Water Protection (P568), Resource Protection (P569) and Environmental Protection (P570) the Department was able to administer and enforce the state and federal laws with which it is charged.

Following is a summation of the four budgetary programs and their purposes within the Department:

Resource Management Division (P567)

This program is comprised of the Office of the Secretary; Office of the General Counsel; the Financial Services Bureau, which includes Budget & Grants, General Ledger & Operational Support, Procurement & Accounts Payables, Human Resources and the Office of Information Technology.

Resource Management provides overall leadership, administrative, legal and information management support to the Department staff and oversight and regulatory entities. This support allows the Department to operate in the most knowledgeable, efficient and cost-effective manner possible, and provides the public with information necessary to hold the Department accountable.

Water Protection Division (P568)

This program is comprised of the Construction Programs Bureau (CPB); Drinking Water Bureau (DWB); Ground Water Quality Bureau (GWQB) and Surface Water Quality Bureau (SWQB).

The program is responsible for overseeing water infrastructure systems and water quality issues throughout the state. It regulates the quality of New Mexico's ground and surface water resources to ensure clean and safe water supplies are available now and in the future to support domestic, agricultural, economic, and recreational activities; ensures that drinking water throughout the state is clean and healthy; that wastewater systems are designed and constructed to meet regulatory standards; and, that public funds appropriated to design and construct these systems are appropriately utilized.

Accomplishments –

- During State Fiscal Year (SFY) 2018, SWQB conducted water quality monitoring at approximately 185 sites within the Upper Rio Grande, San Juan, Canadian, Rio Chama, Pecos, and San Francisco Basins. Monitoring included chemical, physical and biological data collection, as well as 13 season-long data loggers to collect dissolved oxygen and conductivity, and 43 season-long data loggers to collect temperature data. Water quality data collected by SWQB are used to develop and revise water quality standards, establish waterbody management priorities, develop total maximum daily loads (TMDLs) pursuant to CWA §303(d), develop water quality-based effluent limitations for NPDES permits, assess

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

the efficacy of water pollution controls, determine water quality trends and prepare biennial reports to the U.S. Congress pursuant to CWA §305(b).

- Three new wetlands program development projects were awarded CWA §104(b)(3) funding totaling approximately \$880,000 (\$640,000 federal and \$240,000 non-federal match) to advance the development of our statewide wetlands program.
- During SFY 2018, CPB provided technical and financial oversight and assistance for 350 projects statewide and disbursed over \$51.20 million dollars to New Mexico communities from the Clean Water State Revolving Fund (CWSRF), Rural Infrastructure Program (RIP) and Capital Outlay programs. This money was used to support projects that not only protect public health and the environment, but also stimulate the local economies.
- The Capital Outlay program received \$11.65 million for 75 projects from the legislature in the 2018 legislative session.
- The CWSRF and RIP programs will continue to make new loan and grant/loan funding packages available during SFY 2019 and has \$17.5 million in loans in process as of August 2018. The RIP has no money available at this time for communities. As repayments are received the fund will begin to be replenished and can resume funding projects.
- The CWSRF and RIP are both revolving loan fund programs. The August 2018 CWSRF current loans in construction total is \$44.5 million and \$5.28 million for RIP. The CWSRF has \$136 million of loans in repayment and RIP has \$13.6 million in repayment.
- In 2017 and 2018 the NM legislature amended the Wastewater Facility Construction Loan Act also known as the CWSRF to broaden the types of eligible projects and borrowers. This should help get more applications for the fund in future years.
- The GWQB has completed a long overdue and desperately needed regulation revision. Last significantly revised in 1986, NMAC 20.6.2 contained in its current form several standards in need of updating as well as updates and revisions to the provisions for abatement. The Water Quality Control Commission (WQCC) finalized the language in the amended regulations. The amended regulations include more protective groundwater standards and explicit regulatory authority over water pollution that migrates into indoor air. The addition of regulations regarding vapor intrusion, makes New Mexico only the second state in the US to have explicit regulations for oversight of Vapor Intrusion.
- The DWB conducted numerous technical, managerial, and financial trainings for operators and board members of Mutual Domestic Water Consumers Association across the state in support of the Utility Operator Certification Act and Sanitary Projects Act.

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

- In SFY 2018, the DWB developed a SFY 2019 Drinking Water State Revolving Loan Fund Priority Funding List to offer \$26,901,721 in water infrastructure project funding assistance to 14 public water systems across the state at interest rates from 0% to 2%. The DWSRLF list offers loans and loan/principal forgiveness combinations to public water systems, positively impacting about 122,108 water customers in these communities.
- The DWB pursued formal enforcement actions against 29 public water systems in SFY 2018 due to their continued lack of compliance with the Safe Drinking Water Act and NM Drinking Water Regulations.

Resource Protection Division (P569)

This program is comprised of the Department of Energy Oversight (DOE-OB); Hazardous Waste Bureau (HWB); Petroleum Storage Tank Bureau (PSTB) and the Solid Waste (SWB).

The program protects public health and the environment by ensuring that solid waste and recyclable materials are properly transported, managed, handled and disposed; operations that generate, manage, store, process, transport, or dispose of hazardous wastes do so in a responsible manner; petroleum storage tanks are managed to prevent releases and petroleum contaminated sites are cleaned up; and Department of Energy operations in New Mexico are performed in a conscientious manner.

Accomplishments –

- The DOE-OB continues to monitor both ambient and exhaust air at the WIPP facility during the resumption of waste handling. Direct penetrating radiation monitoring was expanded along new and existing approved waste transportation routes, particularly between Waste Control Specialists in Andrews, Texas, and the WIPP facility. Groundwater monitoring at Los Alamos National Laboratory (LANL) was expanded to include new extraction and monitoring wells and more frequent sampling for the chromium plume and the high explosive (RDX) plume investigations.
- The HWB has implemented a document conversion plan that allows public access to HWB records in a prompt and efficient manner. This aligns with the Governor's initiative for governmental transparency. The records are located at <<http://hwbdocuments.env.nm.gov/>>.
- In SFY18, HWB performed 153 compliance evaluation inspections, 22 compliance assistance visits, and 2 WIPP audits. The HWB also responded to 25 spills or complaints. HWB issued a RCRA hazardous waste storage permit for Safety Kleen Albuquerque Service Center and a draft RCRA corrective action only permit for public comment for Cannon Air Force Base and issued a Draft Permit for public comment regarding changes to the WIPP Panel Closure Plan.
- In FY18, PSTB assessed tank fees to approximately 900 owners and operators of regulated tanks and issued tank registration certificates accordingly.
- PSTB approved approximately \$14,023,230.00 for remedial action at leaking petroleum storage tank sites. During FY18, a total of 20 sites received a No Further Action status.

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

- In SFY18, \$4,976,026 was expended on investigation and cleanup of leaking petroleum storage tank sites. Responsible Party lead sites were reimbursed for the amount of \$3,679,022, and \$1,297,003 was expended on State Lead sites. These numbers are less than previous years because of diversions from the fund in the amount of \$5,082,700 in FY17 and \$1,000,000 in FY18.
- As a result of the newly promulgated federal Underground Storage Tank Rule, on May 24, 2018, the Environmental Improvement Board adopted new regulations to update and adopt the provisions of federal regulations. The new regulations are effective July 24, 2019 and the PSTB is working towards implementing the new regulations and updating processes in response to the new requirements. Significant resources will be expended on educating the regulated community on new and updated regulatory requirements to continue to facilitate and encourage compliance. PSTB is preparing an application to maintain state program approval to maintain primacy to administer the underground storage tank program.
- The SWB has regulatory oversight of 981 facilities or businesses. In SFY18, the Bureau held 3 permit application hearings and 3 permits were issued (all landfills).
- The Bureau awarded 27 Recycling and Illegal Dumping Grants for a total of \$827,847 and \$821,578 (95%) was spent.
- Enforcement staff completed 120 inspections of registered or permitted solid waste or scrap tire facilities and infectious waste generators. Of the 120 inspections, 64 were of permitted solid waste facilities and infectious waste generators captured by legislative performance measures, with 94% of the inspected facilities found to be in substantial regulatory compliance.

Environmental Protection Program (P570)

This program is comprised of the Air Quality Bureau (AQB), Environmental Health Bureau (EHB), Occupational Health and Safety Bureau (OSHB), Radiation Control Bureau (RCB), and the Office of Nuclear Worker Advocacy (ONWA).

The purpose of the Environmental Health Division is to protect public health and the environment through programs that regulate air emissions; provide public outreach, education, and regulatory oversight for worker safety; regulation of radiation producing materials and equipment; protection of public health through regulation of food service and food processing facilities; regulation of liquid waste treatment and disposal; and, regulating public swimming pools, baths, and spas.

Accomplishments –

- During SFT 2018, the Permitting Section of the AQB issued 1644 (up 38%) permit applications and 445 (up 110%) construction permit. This increase is primarily due to the increased oil and gas activity primarily in the Permian Basin. Despite this increased workload, the section managed to issue 100% of the permits within the statutory deadline. This success was accomplished through multiple efforts to streamline the regulatory review process, including, but not limited to, the new GCP-Oil & Gas permit and the new NOI-Oil and Gas application form.
- Air quality inspections were completed at 53 facilities with the most air pollutant emissions in the state. Also, 110 investigations were conducted pursuant to complaints. The compliance program

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

continued to use the infrared (FLIR) camera received through a prior FY U.S. Environmental Protection Agency (EPA) grant. The FLIR camera is used to identify volatile organic compound leaks and is integrated into the compliance evaluation process as a quality control check on the effectiveness of facility leak detection services associated with their leak detection and repair (LDAR) programs.

- NMED was named the lead agency for the Volkswagen (VW) Mitigation Trust and conducted six public information meetings across the State. The final Beneficiary Mitigation Plan, project application, and scoring criteria have been completed and have been posted on the VW webpage. Applications for the initial round of funding will be accepted until September 14, 2018 and the technical team continues to meet with interested parties as they develop their applications. The Department will choose the first round of projects by fall 2018.
- The Environmental Health Food Program, with the adoption of the Federal Code, continues to provide the state food program consistency with national standards and consistency in conducting compliance inspections.
- The Swimming Pool Program staff continued to ensure that pools and spas are hyper-chlorinated, per the Center for Disease Control (CDC) guidelines to prevent and stop recreational water illness outbreaks and offered statewide pool operator certification trainings to operators and staff ensuring the safe and sanitary operation of public pools and baths.
- During the 2018 fiscal year, the Occupational Health and Safety Bureau (OHSB) continued to focus enforcement and cooperative program efforts in high hazard industries including healthcare, construction, manufacturing, and oil and gas well drilling and servicing. OHSB conducted 256 enforcement inspections, issued citations for 307 safety and health violations, and assessed \$294,000 in penalties during the 2018 fiscal year.

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

Financial Highlights

The Department's FY18 financial portfolio included 28 funds comprised of governmental, proprietary and fiduciary funds. The governmental funds included four major funds: the General Fund (06400), the Corrective Action Fund (99000), the Air Quality Title V Fund (09200) and the Severance Tax Bonds (89200). The proprietary funds include three major funds: the Wastewater Facility Construction Loan Fund (12100), the Clean Water Administrative Fund (32700) and the Rural Infrastructure Revolving Loan Fund (33700). The special revenue funds, capital project fund and fiduciary fund (65200) made up the remainder of the Department's financial portfolio for the year.

During FY18, the Department recorded total net position of \$355,301,540 which represents an increase of \$31,686,374, or a 10% increase from FY17. The Department's governmental net position increased by \$21,350,681, while the business-type net position increased by \$10,335,693 over FY17.

The business-type activities operating revenue for FY18 were \$5,025,092 and the non-operating income was \$5,310,601. The total cost of all Department programs decreased by \$17,083,075 or 18%, versus the prior fiscal year, from \$94,812,536 to \$77,729,461 during FY18.

Analysis of Individual Balances and Transactions

Governmental and business type activities net revenue stabilized after the diversion of special revenue funds to the State General fund in fiscal year 2017. One Million dollars from the Corrective Action Fund was transferred to New Mexico Energy, Minerals, and Natural Resources Department to assist with the Carlsbad Brine Well project.

Budgetary Highlights

The Department's general fund appropriation decreased \$627,000 over the prior year. Federal sources were budgeted \$2,758,600 more than the prior fiscal year. These changes demonstrate the Department's increased reliance on the use of special revenue funding to support activities and match federal awards. The Department continued to operate under austerity measures with regard to hiring in order to have sufficient fund balances to support activities. The general fund reduction continues to affect the Department's ability to leverage federal revenue that requires matching funds.

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

Financial Analysis of the Department as a Whole

Net Position. Table A-1 summarizes the Department net position for the fiscal year ending June 30, 2018. Net position for the Governmental Activities and Business-type Activities was \$9,505,264 and \$345,796,267, respectively. The total Department net position for fiscal year 2018 is \$355,301,531, which is an increase over the previous fiscal year. The Department's unrestricted balance increased over the prior period, resulting in an increase of total liabilities and net position,

**Table A-1
The Department's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	FY2018	FY2017	FY2018	FY2017	FY2018	FY2017
Assets						
Current and other assets	\$ 44,724,665	\$ 36,799,910	\$ 169,857,474	\$ 169,710,328	\$ 214,582,139	\$ 206,510,238
Capital and non-current assets	1,736,899	1,394,456	177,038,797	165,750,254	\$ 178,775,696	\$ 167,144,710
Total Assets	\$ 46,461,564	\$ 38,194,366	\$ 346,896,271	\$ 335,460,582	\$ 393,357,835	\$ 373,654,948
Liabilities						
Current Liabilities	\$ 9,795,724	\$ 8,292,498	\$ 1,100,004	\$ 4	\$ 10,895,728	\$ 8,292,502
Long-Term Liabilities	27,160,576	42,288,584	-	-	27,160,576	\$ 42,288,584
Total Liabilities	36,956,300	50,581,082	1,100,004	4	38,056,304	50,581,086
Net Position						
Net Investment in Capital Assets	1,736,899	1,394,456	-	-	1,736,899	1,394,456
Restricted	38,546,320	32,417,139	345,796,267	335,460,578	384,342,587	367,877,717
Unrestricted	(30,777,955)	(46,198,311)	-	-	(30,777,955)	(46,198,311)
Total Net Position	9,505,264	(12,386,716)	345,796,267	335,460,578	355,301,531	323,073,862
Total Liabilities and Net Position	\$ 46,461,564	\$ 38,194,366	\$ 346,896,271	\$ 335,460,582	\$ 393,357,835	\$ 373,654,948

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

Changes in Net Position. Table A-2 summarizes the Department changes in net position for the fiscal year ending 2018. The Department's changes in net position for fiscal year 2018 was \$31,686,369 compared to \$(5,844,731) for fiscal year 2017. Program revenues for governmental activities increased by \$1,301,251 when compared to fiscal year 2017. Program revenues for business-type activities increased by \$691,395. The total change in net position was primarily due to the stabilization of the special revenue funds after the diversion of resources from these funds in fiscal year 2017.

**Table A-2
Changes in the Department's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	FY2018	FY2017	FY2018	FY2017	FY2018	FY2017
Revenues						
Program Revenues						
Charges for Services	\$ 19,868,049	\$ 18,566,798	\$ 5,025,088	\$ 4,333,697	\$ 24,893,137	\$ 22,900,495
Operating Grants & Contributions	20,054,680	19,990,903	6,474,000	6,525,000	26,528,680	26,515,903
General Revenues						
Transfers, Net	201,226	(11,160,946)	(937,133)	(9,841,946)	(735,907)	(21,002,892)
Other	20,583,058	19,704,745	-	-	20,583,058	19,704,745
Bond Proceeds/ Appropriations	36,846,861	39,449,554	1,300,000	1,400,000	38,146,861	40,849,554
Investment Income	-	-	-	-	-	-
Total Revenues	<u>97,553,874</u>	<u>86,551,054</u>	<u>11,861,955</u>	<u>2,416,751</u>	<u>109,415,829</u>	<u>88,967,805</u>
Expenses						
Governmental	76,203,199	92,863,103	1,526,266	1,949,433	77,729,465	94,812,536
Total Expenses	<u>76,203,199</u>	<u>92,863,103</u>	<u>1,526,266</u>	<u>1,949,433</u>	<u>77,729,465</u>	<u>94,812,536</u>
Changes in Net Position	21,350,676	(6,312,049)	10,335,689	467,318	31,686,365	(5,844,731)
Beginning Net Position (Restated -Note 22)	<u>(11,845,414)</u>	<u>(6,074,667)</u>	<u>335,460,578</u>	<u>334,993,260</u>	<u>323,615,164</u>	<u>328,918,593</u>
Ending Net Position	<u>\$ 9,505,262</u>	<u>\$ (12,386,716)</u>	<u>\$ 345,796,267</u>	<u>\$ 335,460,578</u>	<u>\$ 355,301,529</u>	<u>\$ 323,073,862</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED JUNE 30, 2018**

Capital Assets and Debt Administration

As of June 30, 2018, the Department's net capital assets were \$1,736,899. This amount represents a net increase of \$342,443 (including additions, deletions, depreciation and a restatement) compared to fiscal year 2017.

As of June 30, 2018, the Department's total compensated absence liability was approximately \$1.84 million; this is an increase of \$133,866 compared to fiscal year 2017. The amount is expected to be paid from the general fund and special revenue funds and is expected to be paid within one year.

As of June 30, 2018, the Department's total pollution remediation liability was approximately \$27.5M; this is an approximate \$15.2M decrease compared to fiscal year 2017. The amount expected to be paid within one year is \$502,823.

Economic Factors and Next Year's Budget Outlook

The Department is reliant on a nominal appropriation of general fund used to support general operating activities and provide match to federal awards. Accordingly, special and capital projects are significantly reliant on general fund appropriations and as such this source has continued to diminish in recent periods. The sources of inflows to the general fund appears to have stabilized, but is still dependent upon the government's ability to collect taxes and fees for services based on current and projected economic wealth. As stable economic certainty is still unknown, investors remain cautious to invest in public projects, which directly affect bonds sales. In the current economic climate, the State Legislature, who makes appropriations annually for the operations and capital projects, has been cautious in its authority to fund government operations based on revenue and income flows to the State. The Department remains optimistic that current low interest rates on loans it provides for capital projects has induced more consumers to utilize this source, which has increased business-type assets. The Department continues to be concerned with future federal funding and the reliance on the special revenue funds and its effects on fund balances for operations and future projects.

Contacting the Department's Financial Management

The financial report is designed to provide citizens, taxpayers, customers, legislators, investors and creditors with a general overview of the Department finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional information, please contact:

New Mexico Environment Department
Administrative Services Division – Financial Services Bureau
1190 St. Francis Drive P.O. Box 5469 Santa Fe, NM 87502-5469
www.nmenv.state.nm.us

NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Investment in State General Fund			
Investment Pool	\$ 35,260,022	\$ 157,823,687	\$ 193,083,709
Due from Federal Government	4,841,792	-	4,841,792
Due from Other State Agencies	1,875,170	-	1,875,170
Due from Other State Entities	816,111	-	816,111
Due from Local Governments	1,126	-	1,126
Loans for Completed Projects, Current	-	9,878,179	9,878,179
Interest on Loans	-	1,910,304	1,910,304
Other Receivables	1,930,444	245,304	2,175,748
Total Current Assets	<u>44,724,665</u>	<u>169,857,474</u>	<u>214,582,139</u>
NONCURRENT ASSETS			
Projects in Progress, Noncurrent	-	35,909,425	35,909,425
Loans for Completed Projects, Noncurrent, Net	-	141,129,372	141,129,372
Capital Assets, Net of Accumulated Depreciation	1,736,899	-	1,736,899
Total Noncurrent Assets	<u>1,736,899</u>	<u>177,038,797</u>	<u>178,775,696</u>
TOTAL ASSETS	<u>\$ 46,461,564</u>	<u>\$ 346,896,271</u>	<u>\$ 393,357,835</u>

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 7,192,201	\$ 4	\$ 7,192,205
Unearned Revenues	427,383	1,100,000	1,527,383
Due to Federal Government	11,362	-	11,362
Due to Other State Agencies	-	-	-
Due to Other State Entities	3,180	-	3,180
Due to State General Fund	-	-	-
Pollution Remediation Liability -			
Due Within One Year	502,823	-	502,823
Compensated Absences -			
Due Within One Year	1,658,775	-	1,658,775
Total Current Liabilities	<u>9,795,724</u>	<u>1,100,004</u>	<u>10,895,728</u>
NONCURRENT LIABILITIES			
Pollution Remediation Liability -			
Due in More Than One Year	26,976,268	-	26,976,268
Compensated Absences -			
Due in More Than One Year	184,308	-	184,308
Total Noncurrent Liabilities	<u>27,160,576</u>	<u>-</u>	<u>27,160,576</u>
Total Liabilities	<u>36,956,300</u>	<u>1,100,004</u>	<u>38,056,304</u>
NET POSITION			
Net Investment in Capital Assets	1,736,899	-	1,736,899
Restricted	38,546,320	345,796,267	384,342,587
Unrestricted (Deficit)	(30,777,955)	-	(30,777,955)
Total Net Position	<u>9,505,264</u>	<u>345,796,267</u>	<u>355,301,531</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 46,461,564</u>	<u>\$ 346,896,271</u>	<u>\$ 393,357,835</u>

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
GOVERNMENTAL ACTIVITIES				
Resource Management Division	\$ 6,500,140	\$ 1,255,659	\$ 2,510,686	\$ -
Water Protection Division	3,476,479	671,566	9,766,820	-
Resource Protection Division	19,952,334	3,854,275	4,087,732	-
Environmental Protection Division	19,994,754	9,010,031	3,689,442	-
Capital Appropriations	25,773,252	4,978,726	-	-
Special Appropriations	506,238	97,792	-	-
	-	-	-	-
	-	-	-	-
Total Governmental Activities	76,203,197	19,868,049	20,054,680	-
BUSINESS-TYPE ACTIVITIES				
12100/32700 - Clean Water State Revolving Fund	1,110,728	4,534,238	6,474,000	-
33700 - Rural Infrastructure Revolving Fund	415,538	490,850	-	-
Total Business-Type Activities	1,526,266	5,025,088	6,474,000	-
TOTAL PRIMARY GOVERNMENT	\$ 77,729,463	\$ 24,893,137	\$ 26,528,680	\$ -

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs (Continued)	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
Resource Management Division	\$ (2,733,795)	\$ -	\$ (2,733,795)
Water Protection Division	6,961,907	-	6,961,907
Resource Protection Division	(12,010,327)	-	(12,010,327)
Environmental Protection Division	(7,295,281)	-	(7,295,281)
Capital Appropriations	(20,794,526)	-	(20,794,526)
Special Appropriations	(408,446)	-	(408,446)
	-	-	-
	-	-	-
Total Governmental Activities	(36,280,468)	-	(36,280,468)
BUSINESS-TYPE ACTIVITIES			
12100/32700 - Clean Water State Revolving Fund	-	9,897,510	9,897,510
33700 - Rural Infrastructure Revolving Fund	-	75,312	75,312
Total Business-Type Activities	-	9,972,822	9,972,822
TOTAL PRIMARY GOVERNMENT	(36,280,468)	9,972,822	(26,307,646)
GENERAL REVENUES AND TRANSFERS:			
General Fund Appropriations	11,372,500	1,300,000	12,672,500
Severance Tax Bond Appropriations	25,574,361	-	25,574,361
Petroleum Products Loading Fee	20,583,058	-	20,583,058
Grants to Other Entities	(100,000)	-	(100,000)
Transfers from Other Agencies	266,783	-	266,783
Transfers to Other Agencies	(1,000,000)	-	(1,000,000)
Transfers - INTRA Agency	937,133	(937,133)	-
Reversions FY18	(2,690)	-	(2,690)
Total General Revenues and Transfers	57,631,145	362,867	57,994,012
CHANGE IN NET POSITION	21,350,678	10,335,689	31,686,367
Net Position - Beginning of Year (Deficit)	(12,386,718)	335,460,578	323,073,860
Restatement (Note 22)	541,304	-	541,304
Net Position - Beginning of Year, as restated	<u>(11,845,414)</u>	<u>335,460,578</u>	<u>323,615,164</u>
NET POSITION - END OF YEAR	\$ 9,505,264	\$ 345,796,267	\$ 355,301,531

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Major Funds					Total Governmental
	06400	99000	89200	09200	Other	
	General Fund	Corrective Action Fund	Severance Tax Bonds	Air Quality Title V	Governmental Funds	
ASSETS						
Investment in State General Fund						
Investment Pool	\$ -	\$ 16,518,644	\$ 1,463,529	2,862,025	\$ 16,508,443	\$ 37,352,641
Due from Federal Government	4,750,723	-	-	-	91,069	4,841,792
Due from Other State Agencies	75	1,597,386	-	-	277,709	1,875,170
Due from Other State Entities	816,111	-	-	-	-	816,111
Due from Local Governments	1,125	-	-	-	-	1,125
Other Receivables	22,650	-	-	-	1,907,794	1,930,444
Total Assets	\$ 5,590,684	\$ 18,116,030	\$ 1,463,529	\$ 2,862,025	\$ 18,785,015	\$ 46,817,283
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Investment in State General Fund						
Investment Pool Overdraft	\$ 2,092,619	\$ -	\$ -	\$ -	\$ -	\$ 2,092,619
Accounts Payable	1,912,345	1,888,607	1,463,529	-	323,251	5,587,732
Due to Federal Government	11,308	-	-	-	54	11,362
Due to Other State Agencies	0	-	-	-	-	-
Due to Other State Entities	3,180	-	-	-	-	3,180
Due to State General Fund	-	-	-	-	-	-
Unearned Revenues	51,482	-	-	-	375,901	427,383
Other Liabilities	0	-	-	-	225	225
Accrued Payroll Liabilities	1,604,244	-	-	-	-	1,604,244
Total Liabilities	5,675,178	1,888,607	1,463,529	-	699,431	9,726,745
FUND BALANCES						
Restricted	1,371,288	16,227,423	-	2,862,025	18,085,584	38,546,320
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	(1,455,782)	-	-	-	-	(1,455,782)
Total Fund Balances	(84,494)	16,227,423	-	2,862,025	18,085,584	37,090,538
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,590,684	\$ 18,116,030	\$ 1,463,529	\$ 2,862,025	\$ 18,785,015	\$ 46,817,283

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Funds Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ 37,090,538
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	
Cost of Capital Assets	7,852,901
Accumulated Depreciation	<u>(6,116,002)</u>
Total Capital Assets	1,736,899
Long-term and certain other liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds.	
Long-term and other liabilities at year-end consist of:	
Pollution Remediation Obligations	(27,479,091)
Compensated Absences Payable	<u>(1,843,083)</u>
Total Long-term and Other Liabilities	<u>(29,322,173)</u>
Net Position of Governmental Activities (Statement of Net Position)	<u>\$ 9,505,264</u>

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	Major Funds					Total Governmental
	06400	99000	89200	09200	Other	
	General Fund	Corrective Action Fund	Severance Tax Bonds	Air Quality Title V	Governmental Funds	
REVENUES						
Environmental Fees	\$ -	\$ -	\$ -	\$ 5,147,562	\$ 14,720,484	\$ 19,868,046
Petroleum Products Loading Fee	-	20,583,058	-	-	-	20,583,058
Federal Grant Revenue	19,374,520	-	-	-	526,126	19,900,646
Other Revenue	136,761	238	-	-	17,036	154,035
Total Revenues	<u>19,511,281</u>	<u>20,583,296</u>	<u>-</u>	<u>5,147,562</u>	<u>15,263,646</u>	<u>60,505,785</u>
EXPENDITURES						
Resource Management Division	6,658,592	-	-	-	-	6,658,592
Water Protection Division	18,904,905	-	-	-	-	18,904,905
Resource Protection Division	11,436,553	7,476,407	-	-	556,859	19,469,819
Environmental Protection Div.	19,729,322	-	-	-	-	19,729,322
Capital Appropriations	198,891	-	25,574,361	-	-	25,773,252
Special Appropriations	506,238	-	-	-	-	506,238
	<u>57,434,501</u>	<u>7,476,407</u>	<u>25,574,361</u>	<u>-</u>	<u>556,859</u>	<u>91,042,128</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(37,923,220)	13,106,889	(25,574,361)	5,147,562	14,706,788	(30,536,343)
OTHER FINANCING SOURCES (USES)						
General Fund Appropriation	11,372,500	-	-	-	-	11,372,500
Grants to Other Organizations	-	-	-	-	(100,000)	(100,000)
Transfers from Other Agencies	266,783	-	-	-	-	266,783
Transfers - Bond Proceeds	-	-	25,574,361	-	-	25,574,361
Transfers to Other Agencies	-	(1,000,000)	-	-	-	(1,000,000)
Transfers - INTRA Agency	25,935,886	(7,871,821)	-	(5,625,514)	(11,501,418)	937,133
Reversions - FY18	(2,690)	-	-	-	-	(2,690)
Net Other Financing Sources (Uses)	<u>37,572,479</u>	<u>(8,871,821)</u>	<u>25,574,361</u>	<u>(5,625,514)</u>	<u>(11,601,418)</u>	<u>37,048,087</u>
NET CHANGE IN FUND BALANCES	(350,741)	4,235,068	-	(477,952)	3,105,370	6,511,745
Fund Balances - Beginning	266,247	11,992,355	-	3,339,977	14,980,214	30,578,793
FUND BALANCES - ENDING	<u>\$ (84,494)</u>	<u>\$ 16,227,423</u>	<u>\$ -</u>	<u>\$ 2,862,025</u>	<u>\$ 18,085,584</u>	<u>\$ 37,090,538</u>

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 6,511,745

Amounts reported for governmental activities in the statement of activities
are different because:

In the statement of activities, certain operating expenses - compensated
absences (sick and annual leave) are measured by the amounts earned
during the year. In the governmental funds, however, expenditures for
these items are measured by the amounts of financial resources used
(essentially, the amounts actually paid).

Increase in Compensated Absences for the Fiscal Year (133,865)

Decrease in the Pollution Remediation Liability for the Fiscal Year 15,171,659

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated
over their estimated useful lives and reported as depreciation expense.
In the current period, these amounts were:

Capital Outlay	366,351
Depreciation Expense	(535,213)
Excess of Capital Outly over Depreciation Expense	<u>(168,862)</u>
Transfers	<u>(29,999)</u>

Change in Net Position of Governmental Activities (Statement of Activities) \$ 21,350,678

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

NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES – MAJOR GOVERNMENTAL
FUNDS - BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2018

	GENERAL FUND - TOTAL			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Funds	\$ 28,771,100	\$ 28,771,100	\$ 19,374,520	\$ (9,396,580)
General Fund	11,372,500	11,372,500	11,372,500	-
Intra-Agency Transfers	33,559,900	33,592,076	25,954,026	(7,638,050)
Other	100,000	237,800	136,761	(101,039)
Other State Funds Component Unit	237,800	250,000	248,645	(1,355)
Total Revenues	74,041,300	74,223,476	57,086,451	(17,137,025)
BUDGETED FUND BALANCE	-	783,700	-	(783,700)
TOTAL REVENUES				
AND BUDGETED FUND BALANCE	\$ 74,041,300	\$ 75,007,176	\$ 57,086,451	\$ (17,920,725)
P-567 EXPENDITURES				
Personal Services and Employee Benefits	\$ 6,713,700	\$ 6,713,700	\$ 5,332,536	\$ 1,381,164
Contractual Services	948,500	839,522	411,246	428,276
Other	1,065,000	1,065,000	914,809	150,191
Total P-567 Expenditures	\$ 8,727,200	\$ 8,618,222	\$ 6,658,592	\$ 1,959,630
P-568 EXPENDITURES				
Personal Services and Employee Benefits	\$ 14,701,800	\$ 14,922,012	\$ 12,183,891	\$ 2,738,121
Contractual Services	11,052,400	10,734,364	4,850,857	5,883,507
Other	2,870,700	2,905,700	1,870,157	1,035,543
Total P-568 Expenditures	\$ 28,624,900	\$ 28,562,076	\$ 18,904,905	\$ 9,657,171
P-569 EXPENDITURES				
Personal Services and Employee Benefits	\$ 10,359,900	\$ 10,359,900	\$ 8,611,785	\$ 1,748,115
Contractual Services	1,935,200	2,180,200	1,291,333	888,867
Other	1,798,200	1,798,200	1,533,434	264,766
Total P-569 Expenditures	\$ 14,093,300	\$ 14,338,300	\$ 11,436,553	\$ 2,901,747

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

NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES – MAJOR GOVERNMENTAL
FUNDS - BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2018

	GENERAL FUND - TOTAL (CONTINUED)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
P-570 EXPENDITURES				
Personal Services and Employee Benefits	\$ 16,766,100	\$ 16,697,100	\$ 15,374,464	\$ 1,322,636
Contractual Services	1,932,700	1,861,678	627,888	1,233,790
Other	3,897,100	4,146,100	3,726,968	419,132
Total P-570 Expenditures	<u>\$ 22,595,900</u>	<u>\$ 22,704,878</u>	<u>\$ 19,729,321</u>	<u>\$ 2,975,557</u>
SPECIAL APPROPRIATION EXPENDITURES				
Personal Services and Employee Benefits	\$ -	\$ 50,000	\$ 10,054	\$ 39,946
Contractual Services	-	524,809	488,591	36,218
Other	-	10,000	7,594	2,406
Total Special Appropriation Expenditures	<u>\$ -</u>	<u>\$ 584,809</u>	<u>\$ 506,238</u>	<u>\$ 78,571</u>
CAPITAL APPROPRIATION EXPENDITURES				
Personal Services and Employee Benefits	\$ -	\$ -	\$ -	\$ -
Contractual Services	-	198,891	198,891	-
Other	-	-	-	-
Total Special Appropriation Expenditures	<u>\$ -</u>	<u>\$ 198,891</u>	<u>\$ 198,891</u>	<u>\$ -</u>
ALL EXPENDITURES				
Personal Services and Employee Benefits	\$ 48,541,500	\$ 48,742,712	\$ 41,512,732	\$ 7,229,980
Contractual Services	15,868,800	\$ 16,339,464	7,868,808	8,470,656
Other	9,631,000	\$ 9,925,000	8,052,963	1,872,037
Total All Expenditures	<u>\$ 74,041,300</u>	<u>\$ 75,007,176</u>	<u>\$ 57,434,503</u>	<u>\$ 17,572,673</u>
NET CHANGE IN FUND BALANCE			\$ (348,051)	
REQUEST TO PAY PRIOR YEAR BILLS FY17 BILLS PAID IN FY18			-	
REVERSIONS TO STATE GENERAL FUND (NOT BUDGETED)			<u>(2,690)</u>	
NET CHANGE IN FUND BALANCE			<u>\$ (350,741)</u>	

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES – MAJOR GOVERNMENTAL
FUNDS - BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	CORRECTIVE ACTION FUND (99000)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Funds	\$ -	\$ -	\$ -	\$ -
General Fund	-	-	-	-
Other State Funds	19,127,800	19,127,800	20,583,296	1,455,496
Inter-agency Transfers	-	-	-	-
Total Revenues	<u>19,127,800</u>	<u>19,127,800</u>	<u>20,583,296</u>	<u>1,455,496</u>
BUDGETED FUND BALANCE	<u>4,547,900</u>	<u>5,547,900</u>	<u>-</u>	<u>(5,547,900)</u>
TOTAL REVENUES AND BUDGETED FUND BALANCE	<u>\$ 23,675,700</u>	<u>\$ 24,675,700</u>	<u>\$ 20,583,296</u>	<u>\$ (4,092,404)</u>
EXPENDITURES				
Personal Services and Employee Benefits	\$ -	\$ -	\$ -	\$ -
Contractual Services	3,500,000	3,500,000	1,617,938	1,882,062
Other	11,000,000	11,000,000	5,853,028	5,146,972
Transfers to Other Agencies	-	1,000,000	1,000,000	-
Other Financing Uses	9,175,700	9,175,700	7,871,821	1,303,879
TOTAL EXPENDITURES	<u>\$ 23,675,700</u>	<u>\$ 24,675,700</u>	<u>\$ 16,342,787</u>	<u>\$ 8,332,913</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER NET CHANGE IN FUND BALANCE			\$ 4,240,509	
REQUEST TO PAY PRIOR YEAR BILLS FY17 BILLS PAID IN FY18			<u>(5,441)</u>	
NET CHANGE IN FUND BALANCE			<u>\$ 4,235,068</u>	

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES – MAJOR GOVERNMENTAL
FUNDS - BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	AIR QUALITY TITLE V (09200)			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
REVENUES				
Federal Funds	\$ -	\$ -	\$ -	\$ -
General Fund	-	-	-	-
Other State Funds	5,066,000	5,066,000	5,147,562	81,562
Inter-agency Transfers	-	-	-	-
Total Revenues	<u>5,066,000</u>	<u>5,066,000</u>	<u>5,147,562</u>	<u>81,562</u>
BUDGETED FUND BALANCE	<u>1,531,900</u>	<u>1,531,900</u>	<u>-</u>	<u>(1,531,900)</u>
TOTAL REVENUES AND BUDGETED FUND BALANCE	<u>\$ 6,597,900</u>	<u>\$ 6,597,900</u>	<u>\$ 5,147,562</u>	<u>\$ (1,450,338)</u>
EXPENDITURES				
Personal Services and Employee Benefits	\$ -	\$ -	\$ -	\$ -
Contractual Services	-	-	-	-
Other	-	-	-	-
Transfers to Other Agencies	-	-	-	-
Other Financing Uses	6,597,900	6,597,900	5,625,514	972,386
TOTAL EXPENDITURES	<u>\$ 6,597,900</u>	<u>\$ 6,597,900</u>	<u>\$ 5,625,514</u>	<u>\$ 972,386</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER NET CHANGE IN FUND BALANCE			\$ (477,952)	
REQUEST TO PAY PRIOR YEAR BILLS FY17 BILLS PAID IN FY18			<u>-</u>	
NET CHANGE IN FUND BALANCE			<u>\$ (477,952)</u>	

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2018**

	ENTERPRISE FUNDS			Total
	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	(33700) Rural Infrastructure Revolving Loan Fund	
ASSETS				
CURRENT ASSETS				
Investments in State General Fund				
Investment Pool	\$ 147,523,942	\$ 2,653,498	\$ 7,646,247	\$ 157,823,687
Receivables				
Interest on Loans	1,586,883	-	323,421	1,910,304
Loan Receivables				
Current Portion of Completed Projects, Net of Origination Fees	8,951,518	-	926,661	9,878,179
Administrative fee receivable	-	245,304	-	245,304
Total Current Assets	158,062,343	2,898,802	8,896,329	169,857,474
LONG-TERM ASSETS				
Loan Receivables				
Noncurrent Portion of Projects in Progress	33,381,483	-	2,527,942	35,909,425
Noncurrent Portion of Completed Projects Net of Origination Fees	128,781,898	-	12,725,705	141,507,603
Allowance for Uncollectible Accounts	-	-	(378,231)	(378,231)
Total Noncurrent Assets	162,163,381	-	14,875,416	177,038,797
TOTAL ASSETS	\$ 320,225,724	\$ 2,898,802	\$ 23,771,745	\$ 346,896,271
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts Payable	\$ 4	\$ -	\$ -	4
Unearned Revenue	1,100,000	-	-	1,100,000
Total Liabilities	1,100,004	-	-	1,100,004
NET POSITION				
Restricted	319,125,720	2,898,802	23,771,745	345,796,267
Total Net Position	319,125,720	2,898,802	23,771,745	345,796,267
TOTAL LIABILITIES AND NET POSITION	\$ 320,225,724	\$ 2,898,802	\$ 23,771,745	\$ 346,896,271

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET POSITION – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	ENTERPRISE FUNDS			Total
	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	(33700) Rural Infrastructure Revolving Loan Fund	
REVENUES				
Interest on Loans	2,389,848	\$ -	424,291	\$ 2,814,139
Interest on Investments	1,272,544	17,425	66,559	1,356,528
Debt Service Fees	-	854,421	-	854,421
Other income	-	-	-	-
Total Operating Revenues	<u>3,662,392</u>	<u>871,846</u>	<u>490,850</u>	<u>5,025,088</u>
EXPENSES				
Administrative Expenses	-	-	-	-
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPERATING INCOME	3,662,392	871,846	490,850	5,025,088
NON-OPERATING REVENUES (EXPENSES)				
Federal Award Programs	6,474,000	-	-	6,474,000
Grants to Other Organizations	(1,110,728)	-	(415,538)	(1,526,266)
General Fund Appropriations	1,300,000	-	-	1,300,000
Transfers to Other Agencies	-	-	-	-
Transfers - INTRA Agency	(527,833)	(137,916)	(271,384)	(937,133)
Total non-operating revenues (expenses)	<u>6,135,439</u>	<u>(137,916)</u>	<u>(686,922)</u>	<u>5,310,601</u>
CHANGES IN NET POSITION	9,797,831	733,930	(196,072)	10,335,689
Total Net Position - Beginning	<u>309,327,889</u>	<u>2,164,872</u>	<u>23,967,817</u>	<u>335,460,578</u>
TOTAL NET POSITION - ENDING	<u>\$ 319,125,720</u>	<u>\$ 2,898,802</u>	<u>\$ 23,771,745</u>	<u>\$ 345,796,267</u>

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	ENTERPRISE FUNDS			Total
	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	(33700) Rural Infrastructure Revolving Loan Fund	
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES				
Cash Received on Repayment of Loan Principal	\$ 12,166,020	\$ -	\$ 1,097,229	\$ 13,263,249
Cash Received on Interest from Loans	1,824,557	-	402,750	2,227,307
Interest Payments Received from Banks/STO	1,272,545	17,426	66,559	1,356,530
Other income	-	-	-	-
Cash Received for Debt Service Fees	-	796,296	-	796,296
Cash Received from Other Funds	-	-	-	-
Cash Payments for Administrative Expenses	-	-	-	-
Cash Payments Made to Borrowers	(22,330,309)	-	(1,797,615)	(24,127,924)
Net Cash (Used) by Operating Activities	(7,067,187)	813,722	(231,077)	(6,484,542)
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES				
Grant Proceeds - EPA	6,474,000	-	-	6,474,000
Grants to Other Organizations	(1,110,728)	-	(415,538)	(1,526,266)
Severance Tax Bond Appropriations	1,300,000	-	-	1,300,000
Unearned Revenues	1,100,000	-	-	1,100,000
Interfund transfers out	-	-	(271,384)	(271,384)
Cash Payments for Administrative Expenses	(527,833)	(137,916)	-	(665,749)
Other transfers out	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	7,235,439	(137,916)	(686,922)	6,410,601
NET INCREASE (DECREASE) IN CASH	168,252	675,806	(917,999)	(73,941)
Investments in State General Fund Investment Pool - Beginning of Year	147,355,690	1,977,693	8,564,245	157,897,628
INVESTMENTS IN STATE GENERAL FUND INVESTMENT POOL - END OF YEAR	\$ 147,523,942	\$ 2,653,499	\$ 7,646,246	\$ 157,823,687

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	ENTERPRISE FUNDS (CONTINUED)			Total
	(12100) Wastewater Facility Construction Loan Fund	(32700) Clean Water Administrative Fund	(33700) Rural Infrastructure Revolving Loan Fund	
RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income	\$ 3,662,392	\$ 871,846	\$ 490,850	\$ 5,025,088
Change in Assets and Liabilities:				
Loans Receivable	(12,033,606)	-	(704,888)	(12,738,494)
Loan Interest Receivable	1,304,026	-	(17,039)	1,286,987
Interest on Investments Receivable	-	-	-	-
Due from Other State Agencies	-	-	-	-
Due from Other Governmental Funds	-	-	-	-
Administrative Fee Receivable	-	(58,125)	-	(58,125)
Accounts Payable and Accrued Liabilities	-	-	-	-
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (7,067,188)</u>	<u>\$ 813,721</u>	<u>\$ (231,077)</u>	<u>\$ (6,484,544)</u>

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

NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1. DEFINITION OF REPORTING ENTITY

The New Mexico Environment Department (the Department) was created on July 1, 1991, under the Department of Environment Act Laws of 1991, Chapter 25, Section 9-7A-1. The Department is a cabinet department of the executive branch of government. The chief executive of the Department is the Secretary, who is appointed by the Governor with the consent of the senate and serves in the Governor's executive cabinet. These financial statements include all funds and activities over which the Department Secretary has oversight responsibility. The Department was formed for the purpose of preserving, protecting and perpetuating the State of New Mexico's water, air and land. The Department also protects the safety and health of the State's people by regulating, monitoring and inspecting public facilities and establishments.

The functions of the Department are administered through the following programs:

Resource Management Program (P-567)

The Resource Management Program provides overall executive leadership and administrative, legal and information management support to all Department staff, the public and oversight and regulatory bodies. This support allows the Department to operate in the most knowledgeable, efficient and cost-effective manner so that the public can receive the information it needs to hold the Department accountable.

Water Protection Program (P-568)

The purpose of the Water Protection Program is to protect and preserve the ground, surface and drinking resources of the state for present and future generations through monitoring, sampling and permitting processes. In addition, the program helps communities develop sustainable and secure water, wastewater and solid waste infrastructure through funding, technical assistance, and project oversight.

Resource Protection Program (P569)

The purpose of the Resource Protection Program is to protect the air, land, groundwater, surface water and public health through monitoring and regulatory oversight of hazardous and solid waste generation, transportation, disposal and storage; prevention of releases of petroleum products; and monitoring and sampling at past and present U.S. Department of Energy facilities located in New Mexico.

Environmental Protection Program (P570)

The Environmental Protection Program protects New Mexico's air quality, public health and ensures safe and healthful working conditions for employees. The program provides regulatory oversight for food service and food processing facilities, liquid waste treatment and disposal, public swimming pools and baths, and mosquito abatement. It also protects the environment through specific programs that provide public outreach and education and regulatory oversight of treatment with medical radiation and disposal of radioactive material including transportation to the Waste Isolation Pilot Plant. The program also provides public outreach and education about radon in homes and public buildings.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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

Financial Reporting Entity

The financial statements for the Department have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The Statement of Activities demonstrates the degree to which the direct expenditures of a function are offset by program revenues. Direct expenditures are those that are clearly identifiable with a specific Department's function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by the Department, such as permit fees and remediation monitoring. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Indirect expenditures are allocated based on a prorated measure of direct expenditures.

Net position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. It is the Department's policy to apply disbursements first to restricted assets and then to non-restricted. Restricted assets arising from enabling legislation means the restrictions are legally enforceable. Legally enforceable means a government can be compelled by an external party to use resources only for purposes specified by legislation.

The net cost (by function) is normally covered by general revenues (intergovernmental revenues, interest income, etc.). The Department does not currently employ indirect cost allocation systems.

This government-wide focus is more on the sustainability of the Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements emphasis is on the major fund in the governmental category.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity (Continued)

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Department's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund-based financial statements into the governmental column on the government-wide presentation.

The Department is a "department" of the State of New Mexico and will be included in any statewide Comprehensive Annual Financial Report. In accordance with the criteria set forth in GASB No. 14 (as amended by GASB No. 39 and No. 61) for determining component units, the Department does not have any component units.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Department first uses restricted resources, then unrestricted resources.

The Department administers the Clean Water State Revolving Loan Fund (the Fund) pursuant to Title VI of the Federal Water Quality Act of 1987, which consists of the Clean Water Administrative Fund (32700) and the Wastewater Facility Construction Loan Fund (12100). The Environmental Protection Agency (EPA) requires the Department to submit an annual report of the Fund. As a result, the Department issues a separate set of financial statements consisting of these two funds of the Department.

Basis of Presentation - Fund Accounting

The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. The various funds are summarized by type in the accompanying financial statements. The following fund types are used by the Department:

Governmental Fund Types - All governmental fund types are accounted for on a spending or financial flow measurement focus.

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting (Continued)

The Department reports the following major governmental funds:

General Fund (06400) – The General Fund is the operating fund of the Department. It is used to account for all operating activities of the Department, except those requiring other governmental fund types. The General Fund is a reverting fund. Source of funding: General fund appropriation, federal grant revenue and other revenues.

Corrective Action Fund (99000) – Created by State Statute 74-6B-7. This Special Revenue fund is intended to provide for financial assurance coverage requirements by federal law and shall be used by the division to take corrective action in response to a release, to pay for the costs of a minimum site assessment in excess of ten thousand dollars, to pay the State’s share of federal leaking underground storage tank trust fund cleanup costs as required by the Federal Resource Conservation and Recovery Act and to make payments to or on behalf of owners and operators in accordance with Section 74-6B-13. This fund is non-reverting.

Severance Tax Bonds (89200) – This Capital Project fund accounts for the sale of severance tax bonds to provide funds for various waste handling projects. The fund is a reverting fund. Source of funding: Severance tax bonds. No budget to actual statements are presented for capital projects funds. The schedule of severance tax bond appropriations is presented as supplementary information.

Air Quality Title V (09200) – This fund was established by the Department to comply with the Air Quality Control Act, Chapter 74, Article 2. The purpose of this fund is to establish and administer an air quality permit program. This fund is non-reverting.

The Department reports the following non-major governmental funds:

Special Revenue Funds. Special revenue funds account for the proceeds of revenue sources that are limited to specific expenditures. These revenue sources must provide a “substantial” amount of (defined as 50% or more) the funding accounted for in a special revenue fund. The standard further limits the use of this fund to expenditures that are not related to capital outlay or debt service.

Proprietary Fund Types - The focus of Proprietary Fund measurement is based upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector.

Enterprise Funds. Enterprise Funds are required to account for operations for which a fee is charged to external users for goods and services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues; (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or (c) has pricing policy designed for the fees and charges to recover similar costs.

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting (Continued)

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

The Department reports the following major proprietary funds:

Wastewater Facility Construction Loan Fund (12100) – Created by State Statute 74-6A-4. The fund is a revolving loan fund used to provide low-cost financial assistance to local authorities to construct or modify wastewater facilities. The net position balance is restricted by state statute for future loans. This fund is non-reverting.

Clean Water Administrative Fund (32700) – Created by State Statute 74-6A-4.1. 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. The net position balance is restricted by state statute for administering the Wastewater Facility Construction Loan Fund. This fund is non-reverting.

Rural Infrastructure Revolving Loan Fund (33700) - Created by State Statute 75-1-3. The fund is a revolving loan fund used to make loans and grants to local authorities, individually or jointly, for water supply facilities. The net position balance is restricted by state statute for future loans. This fund is non-reverting.

Fiduciary Fund Types - Fiduciary funds are used to report assets held in trustee or agency capacity for others and, therefore, are not available to support Department programs. The reporting focus is upon changes in assets and liabilities and employs accounting principles similar to proprietary funds. The Department has no fiduciary funds.

Agency Funds. Agency Funds are used to account for assets held by the Department in the capacity of trustee or agent. Penalties Fund (65200) was reported in prior years as an Agency Fund. This fund was reclassified as a Special Revenue Fund for the fiscal year ended June 30, 2017 and thereafter. The Department of Finance and Administration is working on a process to determine how to address the mechanics of the penalties and how it should be transferred to the Department of Finance and Administration.

Basis of Accounting

Government-wide Financial Statements The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Governmental Fund Financial Statements The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within sixty days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

Employees' annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2018 has been reported only in the government-wide financial statements.

The financial activities of the Department are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Federal funds are recorded as revenues when expenditures have been incurred on behalf of one or more of the Department's federal award programs and when all eligibility requirements have been met. Special appropriations are recorded as revenues when they are available. Major revenue sources susceptible to accrual include: petroleum products loading fee, permit fees for air emission discharge, underground storage tank fees, food and pool permit fees, hazardous waste permits and generator fees. These sources are recorded when available and when revenues are determinable. Bond proceeds are recognized when all eligibility requirements have been met.

Budgets and Budgetary Accounting

The state Legislature makes annual appropriations to the Department. Annual appropriations lapse at fiscal year-end unless otherwise specified in the legislation. Legal compliance is monitored through the establishment of a budget and a financial control system that permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the category level. Budgeted category amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration (DFA) within the limitations as specified in the General Appropriation Act.

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control is at the appropriation program level (A-Code, P-Code, and Z-Code). A-Codes pertain to capital outlay appropriations (general obligation/severance tax or state general fund). P-Codes pertain to program operating funds. Z-Codes pertain to special appropriations.

Interfund Transactions

Transfers which, because of budgetary or legal restrictions, must be expended by funds other than the fund initially receiving the revenue are recorded as operating transfers in (out) under the other financing sources (uses) category. A summary of these transactions is outlined in Note 9.

Modified Accrual

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB 33), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and unearned revenue by the recipient.

Receivables

Petroleum Storage Tank Bureau - The Petroleum Storage Tank Bureau has a database of receivable balances from various prior periods which are deemed uncollectible.

However, the Department has an ongoing project to investigate and resolve all outstanding balances. Collection efforts have been successful in some of the resolved cases. In other cases, the Bureau determined that the balances were uncollectible. This effort is still ongoing and the Department cannot estimate a time of completion.

Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding \$5,000 that significantly extend the useful life of an asset are capitalized per Section 12-6-10 NMSA 1978.

Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management’s estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives in years:

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Reportable IT Maintenance	5
Reportable IT Services	5
Furniture and Fixtures	7
Data Processing Equipment	5
Machinery and Equipment	5
Library and Museum	7
Automotive	5
Buildings and Structures	27 ½

Compensated Absences

Accrued vacation up to 240 hours is recorded in the Statement of Net Position at 100% of the employee's hourly wage. In addition, accrued sick leave over 600 and up to 720 hours (less the amount classified as current) is recorded in the Statement of Net Position at 50% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA). Employees exempt from coverage by FLSA earn one hour of compensatory time for each overtime hour. The accrual for compensated absences is calculated at pay rates in effect at June 30, 2018 and includes direct and incremental salary related payments, such as the employees' share of social security taxes.

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 Department did not have any items that qualified for reporting in this category as of June 30, 2018.

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

Pension Plan

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension Plan (Continued)

In January 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Compliant with the requirements of Government Accounting Standards Board Statement No.68 and No.71, the State of New Mexico has implemented the standards for the fiscal year ending June 30, 2015.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, the total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the State General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, NM 87501.

Post Employment Benefits – State Retiree Health Care Plan

Compliant with the requirements of Government Accounting Standards Board Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position, resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2018 and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, NM 87501.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as investment in capital assets (net of related debt), restricted and unrestricted.

Net Investment in Capital Assets

Net investment reflects the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Department has no debt related to capital assets.

Restricted

Restricted assets are liquid assets generated from revenues but not bond proceeds which have third-party (statutory, bond covenant or granting agency) limitations on their use. Of the reported restricted net assets on the government-wide statement of net position, all are restricted by enabling legislation. Specific purposes of restrictions are for statutory requirements, loans on water and wastewater projects and special revenue funds. According to underground storage tank regulation section 1507(A), “the Department shall maintain a reserve of one million dollars (\$1,000,000) in the fund for the costs of taking first and second priority emergency corrective action.”

Unrestricted

Unrestricted assets represent assets that do not have third-party limitations on their use. The Department has an unrestricted deficit as of June 30, 2018 as a result of long-term liabilities that are to be funded as they become due rather than when they are incurred.

Tax Abatements

GASB Statement No. 77, Tax Abatement Disclosures has been implemented by governmental entities for the fiscal year ended June 30, 2018. The Department does not abate taxes and has not been materially impacted by any tax abatement agreements entered into by other governmental entities.

Fund Balances

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature’s and Executive Branch’s intent to be used for specific purposes or, in some cases, by legislation. See additional information about fund balances below.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances (Continued)

Restricted – Government Fund Financial Statements

The following table identifies the funds that are affected by enabling legislation and the respective balances:

RESTRICTED - MAJOR FUNDS

Fund	Description	Enabling Legislation	Restricted Fund Balance
06400	General Fund	Laws 2017 Ch. 135	\$ 1,371,288
09200	Air Quality Title V Fund	74-2-15 NMSA 1978	2,862,025
89200	Severance Tax Bonds	Annual Legislation	-
99000	Corrective Action Fund	74-6B-7 NMSA 1978	16,227,423
Subtotal - Restricted - Major Funds			20,460,736

RESTRICTED - OTHER GOVERNMENTAL FUNDS

Fund	Description	Enabling Legislation	Restricted Fund Balance
02600	Recycling & Illegal Dumping Fund	74-13-19 NMSA 1978	1,401,529
06600	Voluntary Remediation Fund	74-4G-11 NMSA 1978	66,654
10980	Nuclear Workers Assistance Fund	74-1-17 NMSA 1978	106,546
11900	Brownfields Cleanup Revolving Loan Fund	74-4G-11.1 NMSA 1978	2,081,159
24800	Responsible Parties Fund	74-6B-7 NMSA 1978	126,449
33900	Hazardous Waste Fund	74-4-4.5 NMSA 1978	1,183,020
34000	Liquid Waste Fund	74-1-15 NMSA 1978	890,952
34100	Water Quality Management Fund	74-6-5.2 NMSA 1978	464,545
40000	Water Recreation Facilities Fund	74-1-16 NMSA 1978	320,184
56700	Water Conservation Fund	74-1-13 NMSA 1978	2,691,698
58400	Public Water Supply System Operator and Public Wastewater Operator Fund	61-33-5 NMSA 1978	61,662
59200	Radiation Protection Fund	74-3-5.1 NMSA 1978	1,126,768
63100	State Air Quality Permit Fund	74-2-15 NMSA 1978	3,486,958
63200	Solid Waste Facility Grant Fund	74-9-41 NMSA 1978	38,723
78300	Solid Waste Permit Fees	74-9-8(I) NMA 1978	122,665
95700	Hazardous Waste Emergency Fund	74-4-8 NMSA 1978	1,625,201
98700	Radiologic Technology Fund	61-4E-10 NMSA 1978	244,110
98900	Storage Tank Fund	74-4-4.8 NMSA 1978	402,435
99100	Food Service Sanitation Fund	25-1-5.1 NMSA 1978	1,644,327
Subtotal - Restricted - Other			18,085,585
Total - All Governmental Funds			\$ 38,546,321

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Eliminations

Interfund eliminations have not been made in the aggregation of the governmental fund financial statements. Interfund transfers and due to/due from amounts shown in the governmental financial statements are eliminated in the government-wide statement of net position and statement of activities.

Cash and Cash Equivalents

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

Risk Management

The Department, as a “State Agency” defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the General Services Department of the State of New Mexico. The Department pays annual premiums to the Risk Management Division for coverage provided in the following areas:

Liability and civil rights protection for claims made by others against the State of New Mexico.

- Coverage to protect the State of New Mexico's property and assets.
- Fringe benefit coverage for State of New Mexico employees.

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.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 3. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

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

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

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

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

NOTE 4. INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

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

At June 30, 2018, the Department had the following invested in the State General Fund Investment Pool:

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2018.

State General Fund Investment Pool

\$ 193,083,709

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 4. INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

The reconciliation between Cash per the Department and the New Mexico Office of the State Treasurer is presented below:

GOVERNMENTAL FUND CASH WITH THE OFFICE OF THE STATE TREASURER SGFIP			DFA System Balance at 6/30/2018
<u>Account Name</u>	<u>SHARE Fund No.</u>	<u>Interest Bearing</u>	
General Fund	06400	No	(2,092,619)
Corrective Action Fund	99000	No	16,518,644
Severance Tax Bonds	89200	No	1,463,529
Air Quality Title V	09200	No	2,862,025
Non-Major Funds	Various	Various	16,508,443
Governmental Fund Cash Total			<u>\$ 35,260,022</u>
 PROPRIETARY FUND CASH WITH THE OFFICE OF THE STATE TREASURER SGFIP			
<u>Account Name</u>	<u>SHARE Fund No.</u>	<u>Interest Bearing</u>	DFA System Balance at 6/30/2018
Clean Water State Revolving Fund	12100	Yes	147,523,942
Clean Water State Administrative Fund	32700	Yes	2,653,498
Rural Infrastructure Loan Fund	33700	Yes	7,646,247
Proprietary Fund Cash Total			<u>\$ 157,823,687</u>
 TOTAL CASH WITH THE OFFICE OF THE STATE TREASURER SGFIP			 <u>\$ 193,083,709</u>
 RECONCILIATION BETWEEN STATE TREASURER SGFIP AND FINANCIAL STATEMENTS			
Amounts Held at SGFIP at 6/30/2018			\$193,083,781
Reversions to the State General Fund (Note 13)			(72)
Governmental Fund Reconciling Item Total			0
Proprietary Fund Reconciling Item Total			0
			<u>\$193,083,709</u>
SGFIP Per the Statement of Net Position			<u>\$ 193,083,709</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 5. OTHER RECEIVABLES

<u>Fund Name and Number</u>	<u>Total Receivables</u>	<u>Uncollectible Amounts</u>	<u>Net Accounts Receivable</u>
Brownfields Cleanup Revolving Loan Fund (11900)	\$ 1,713,360	\$ -	\$ 1,713,360
Hazardous Waste Fund (33900)	68,000	(17,500)	50,500
Radiation Protection Fund (59200)	60,468	(22,245)	38,223
Hazardous Waste Emergency Fund (95700)	86,519	(21,000)	65,519
Food Service Sanitation Fund (99100)	17,700	-	17,700
General Fund (06400)	22,650	-	22,650
State Air Quality Permit Fund (63100)	74,596	(67,796)	6,801
Solid Waste Facility Grant Fund (63200)	75,000	(75,000)	-
Storage Tank Fund (98900)	5,956,245	(5,948,820)	7,425
Water Conservation Fund (56700)	5,666	(400)	5,266
Liquid Waste Fund (34000)	3,000	-	3,000
			<u>\$ 1,930,444</u>
Total other receivables, net of allowance for doubtful accounts			<u>\$ 1,930,444</u>

The Brownfields Cleanup Revolving Loan Fund provides loans from federal grant proceeds to various parties to carry out cleanup activities at Brownfields sites. At June 30, 2018, the fund consisted of three loans with private parties:

- One loan was in repayment and had a principal balance of \$939,103 as of June 30, 2018. Payments began March 31, 2017 in equal monthly installments of \$8,777. Payments will be made over 10 years, with a final payment due February 15, 2027. This receivable is considered fully collectible.
- Two loans were in disbursement as of June 30, 2018. One had a principle disbursed balance of \$300,000 and the other had a principal disbursed balance of \$474,257. Both of these receivables are considered fully collectible.

The Storage Tank Permit Fee is a \$100 annual fee charged on each underground storage tank. The tank fees are invoiced May 1 and are due July 1 for the next fiscal year. A past-due notice is sent in October and a late fee of 25% of the unpaid amount is charged. The Hazardous Waste revenues are composed of various permits and fee charges, including hazardous waste permits, annual unit audits, annual generator fees and WIPP permits.

Other receivables represent other various fee and permit related receivables. All amounts considered uncollectible include amounts outstanding for more than one year.

NOTE 6. CLEAN WATER STATE REVOLVING FUND (CWSRF) AND RURAL INFRASTRUCTURE PROJECT FUND (RIP) LOANS

CWSRF (Wastewater Facility Construction Loan Fund) and RIP loans represent interest-bearing funds advanced to various municipalities and water control districts within the state to construct or modify wastewater or water supply facilities. Construction loans represent those projects still under construction. Interest is accrued on loans in the construction phase. Upon completion, entities can either pay the accrued interest, or, capitalize this interest and include it in the loan principal amount. Loans in repayment loans represent completed projects where the Department receives principal and interest.

The allowance for uncollectible accounts presented is for RIP loans and is based on estimated collectible balances using an analysis of an aging of outstanding accounts and historical collection experience. There is no allowance

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 6. CWSRF AND RIP LOANS (CONTINUED)

for doubtful accounts for CWSRF as all loans are current and management believes that all loans will be repaid according to the loan terms. The Department may not forgive a loan. Loans as of June 30, 2018 consist of the following:

	(12100) Wastewater Facility Construction Loan Fund	(33700) Rural Infrastructure Revolving Loan Fund	Total
Construction Loans in Progress	\$ 33,381,483	\$ 2,527,942	\$ 35,909,425
Loans on Completed			
Projects, Noncurrent and Current	137,733,416	13,652,366	151,385,782
Accrued Interest	1,586,883	323,421	1,910,304
Allowance for Uncollectible Accounts	-	(378,231)	(378,231)
	<u>\$ 172,701,782</u>	<u>\$ 16,125,498</u>	<u>\$ 188,827,280</u>

A significant portion of loans are secured by pledged revenues and bear interest at rates ranging from zero to five percent per annum. Construction loans in process are transferred to permanent financing upon completion of the project.

Loans are paid in annual installments, including interest, ranging from \$2,495 to \$2,500,000 in the CWSRF and \$100 to \$126,784, in monthly and annual installments in the RIP Fund.

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

(12100) Wastewater Facility Construction Loan Fund

<u>Years Ending June 30,</u>	<u>Principal Repayments</u>	<u>Interest Payments</u>	<u>Fee Payments</u>	<u>Total</u>
2019	\$ 8,951,518	\$ 1,456,415	\$ 361,378	\$ 10,769,311
2020	9,767,674	1,550,607	348,986	11,667,267
2021	9,919,491	1,420,520	324,309	11,664,320
2022	10,056,251	1,287,666	299,188	11,643,105
2023	10,217,145	1,152,266	273,694	11,643,105
2024 and Thereafter	88,821,337	5,337,518	1,450,117	95,608,972
Completed Projects Totals	<u>\$ 137,733,416</u>	<u>\$ 12,204,992</u>	<u>\$ 3,057,672</u>	<u>\$ 152,996,080</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 6. CWSRF AND RIP LOANS (CONTINUED)
(33700) Rural Infrastructure Revolving Loan Fund

<u>Years Ending June 30,</u>	<u>Principal Repayments</u>	<u>Interest Payments</u>	<u>Fee Payments</u>	<u>Total</u>
2019	\$ 985,054	\$ 389,213	\$ -	\$ 1,374,267
2020	975,266	354,093	-	1,329,359
2021	995,997	325,295	-	1,321,292
2022	906,706	296,822	-	1,203,528
2023	880,401	270,126	-	1,150,527
2024 and Thereafter	8,908,942	1,433,384	-	10,342,327
Completed Projects Totals	<u><u>\$ 13,652,366</u></u>	<u><u>\$ 3,068,934</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,721,300</u></u>

The following is a detailed summary of major borrowers and loan balances at June 30, 2018.

Construction loans in progress:

<u>Community</u>	<u>(12100) Wastewater Facility Construction Loan Fund</u>	<u>(33700) Rural Infrastructure Revolving Loan Fund</u>	<u>Total</u>
City of Farmington	\$ 20,805,409	\$ -	\$ 20,805,409
City of Grants	10,601,965	-	10,601,965
Town of Peralta	333,392	-	333,392
Village of Cuba	404,700	-	404,700
City of Santa Rosa	237,825	-	237,825
City of Hobbs	124,307	-	124,307
City of Gallup	873,885	-	873,885
Dona Ana MDWCA	-	1,315,659	1,315,659
Village of Chama	-	1,148,003	1,148,003
Talavera MDWCA	-	47,833	47,833
Tierra Monta WUA, Inc.	-	9,441	9,441
Algodones MDWCA	-	7,006	7,006
	-	-	-
Total	<u><u>\$ 33,381,484</u></u>	<u><u>\$ 2,527,942</u></u>	<u><u>\$ 35,909,426</u></u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 6. CWSRF AND RIP LOANS (CONTINUED)

Loans on completed projects:

Community	(12100) Wastewater Facility Construction Loan Fund	(33700) Rural Infrastructure Revolving Loan Fund	Total
Portales	\$ 25,251,000	\$ 775,552	\$ 26,026,552
Hobbs	21,805,777	-	21,805,777
Carlsbad	19,414,220	-	19,414,220
Los Lunas	14,372,820	-	14,372,820
Las Vegas	8,904,264	-	8,904,264
Los Alamos County	7,197,356	-	7,197,356
Farmington	6,689,746	-	6,689,746
Aztec	6,291,587	-	6,291,587
Clovis	4,800,957	-	4,800,957
Lovington	3,760,201	-	3,760,201
Espanola	3,673,992	-	3,673,992
Dona Ana County	2,887,137	-	2,887,137
Peralta	-	2,000,000	2,000,000
Dona Ana MDWCA	-	1,671,385	1,671,385
El Valle de Los Ranchos Water & Sanitation	1,570,910	320,631	1,891,541
Bloomfield	1,317,362	379,947	1,697,309
City of Socorro	1,270,011	-	1,270,011
Southern Sandoval County Arroyo Flood Control	1,203,480	-	1,203,480
Belen	1,904,586	-	1,904,586
Taos Ski Valley	1,209,212	-	1,209,212
Sandoval County	303,949	727,400	1,031,349
Elephant Butte	323,844	669,065	992,909
Bayard	762,368	190,291	952,659
Cloudcroft	-	921,883	921,883
Town of Taos	900,000	-	900,000
PAA-ko Communities Sewer Association	-	846,562	846,562
Estancia Valley Solid Waste Authority	-	798,307	798,307
San Juan County	660,736	-	660,736
Greentree Solid Waste Authority	-	596,437	596,437
Santa Rosa	325,000	-	325,000
Logan	235,160	-	235,160
Eagle Nest	151,838	-	151,838
Jemez Springs	114,594	-	114,594
Ruidoso Downs	69,403	-	69,403
San Miguel County	69,199	-	69,199
Wagon Mound	66,629	-	66,629
Tucumcari	65,000	13,275	78,275
Chama	61,184	-	61,184

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 6. CWSRF and RIP LOANS (CONTINUED)

Loans on completed projects (continued):

Community	(12100) Wastewater Facility Construction Loan Fund	(33700) Rural Infrastructure Revolving Loan Fund	Total
Navajo Dam DWS & SWA	-	343,736	343,736
De Baca County	-	343,623	343,623
Edgewood, Town of	-	280,480	280,480
Otis MDWC & SWA	-	265,006	265,006
Jemez Springs DWCA	-	244,870	244,870
Other Communities	99,894	104,819	204,713
Red River, Town of	-	200,568	200,568
Texico, City of	-	168,280	168,280
Capitan, Village of	-	153,930	153,930
Truth or Consequences, City of	-	126,044	126,044
Santa Cruz WA	-	124,288	124,288
San Antonio MDWCA	-	120,362	120,362
Lower Arroyo Hondo MDWCA	-	106,867	106,867
Upper Arroyo Hondo MDW	-	97,874	97,874
La Jara MDWCA	-	94,909	94,909
Tularosa, Village of	-	74,150	74,150
Chapelle MDWCA	-	89,466	89,466
Springer, Town of	-	87,912	87,912
Gamercio Water & Sanitation District	-	86,005	86,005
CANONCITO AT APACHE CANYON	-	78,477	78,477
Chamita MDWC & SWA	-	59,636	59,636
Twin Forks MDWCA	-	57,038	57,038
Town of Estancia	-	56,567	56,567
Cuba	-	55,669	55,669
High Sierra Estates WA	-	49,288	49,288
LA CIENEGA MDWC & MSWA	-	43,602	43,602
PLAZA BLANCA	-	39,655	39,655
Brazos MDWCA	-	28,511	28,511
Raton	-	25,000	25,000
YOUNGSVILLE	-	22,957	22,957
Pineywoods Estates Water Assoc, Inc.	-	20,393	20,393
Hanover MDWCA	-	18,646	18,646
Rolling Hills	-	15,967	15,967
BIBO MDWCA	-	11,825	11,825
Cedar Crest MDWC & SWA	-	17,565	17,565
Agua Sana WUA	-	12,925	12,925
Bluewater Water & Sanitation District	-	14,724	14,724
Total	\$ 137,733,416	\$ 13,652,366	\$ 151,385,782

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 7. DUE FROM AND DUE TO OTHER FUNDS

Due from and due to other funds are amounts due from and to other funds within the Department. A significant portion of these balances during the year represents the differences between the amounts transferred from the Special Revenue Funds and the Clean Water Administrative Fund to the General Fund and the amounts expended in the General Fund on behalf of the Special Revenue Funds. As of June 30, 2018, the Department did not have any amounts due from/to other funds as the amounts were transferred as of the year end. Interfund transfers have been disclosed in Note 9.

NOTE 8. DUE FROM AND DUE TO OTHER STATE AGENCIES/ENTITIES

Transactions that occur among state agencies legislative mandate, exchange transactions, and other situations are accounted for in the financial statements which make up the due from and due to other state agencies. The due from and due to other agencies balances at June 30, 2018 consist of the following:

NMED Fund	Agency	Business Unit No.	Other Agency's Fund No.	Amount
Due From Other State Agencies				
Governmental Funds:				
06400	Due from NMIAD for CPB invoice (A)	60900	04800	\$ 75
99000	Due from NM TRD for Petroleum Products Loading Fee	33300	82800	1,597,386
56700	Due from NM TRD for Water Conservation Fee	33300	82800	277,709
				<u>\$ 1,875,170</u>

NMED Fund	Entity	Other Entity's Business Unit	Amount
Due From Other State Entities			
06400	Due from the NMFA for DWSRF set-aside pass-throughs (B)	38500	<u>\$ 816,111</u>
Due To Other State Entities			
06400	Due to UNM for Contractual Work for Wetlands Project	96900	<u>\$ 3,180</u>

(A) NMED conducts engineering reviews for the New Mexico Indian Affairs Department (NMIAD) for the Tribal Infrastructure Fund projects and is paid for these services.

(B) The New Mexico Financial Authority (NMFA) receives an annual capitalization grant for the Drinking Water State Revolving Loan Fund (DWSRF). NMFA passes the set asides through to NMED from each capitalization grant.

No amounts are due from the Department to any other state agencies at 6/30/2018.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 9. TRANSFERS

INTRA Agency transfers as of June 30, 2018 are as follows:

Fund	Transfers In	Transfers Out
Governmental Funds INTRA Agency Transfers:		
General Fund - 06400	\$ 24,998,753	\$ -
Special Revenue Funds:		
02600	-	60,079
06600	-	41,738
09200	-	5,625,514
10980	-	21,182
11900	-	1,041
24800	-	160,551
33900	-	2,388,416
34000	-	211,890
34100	-	676,129
40000	-	126,894
56700	-	2,801,872
58400	-	75,441
59200	-	707,272
63100	-	1,881,927
78300	-	44,806
95700	-	165,281
98700	-	88,521
98900	-	314,438
99000	-	7,871,821
99100	-	1,733,940
Total Governmental Funds INTRA Agency Transfers	\$ 24,998,753	\$ 24,998,753
Proprietary Funds INTRA Agency Transfers:		
06400	\$ 937,133	\$ -
12100	-	527,833
33700	-	271,384
32700	-	137,916
Total Proprietary Funds INTRA Agency Transfers *	\$ 937,133	\$ 937,133

INTRA Agency transfers occur primarily from special revenue funds to the general operating fund since certain revenues are recorded in the special revenue funds, but related expenditures are budgeted and incurred through the general operating fund. All transfers are routine and consistent with fund activity.

* Proprietary funds INTRA Agency transfers out are included with Transfers - INTRA Agency on the statement of revenues, expenses and changes in fund net position.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 10. CAPITAL ASSETS

A summary of changes in capital assets owned by the agency is as follows:

	Balance, June 30, 2017	Additions	Deletions	Transfers/ Adjustments	Balance, June 30, 2018
Furniture and Fixtures	\$ 242,237	\$ 12,970	\$ -	\$ (4,758)	\$ 250,449
Data Processing Equipment	788,608	67,245	(13,859)	-	841,994
Machinery and Equipment	2,585,626	256,137	(178,505)	(40,522)	2,622,736
Library and Museum	35,511	-	-	-	35,511
Automotive	-	29,999	-	(29,999)	-
Buildings and Structures	18,225	-	-	-	18,225
Total	<u>3,670,207</u>	<u>366,351</u>	<u>(192,364)</u>	<u>(75,279)</u>	<u>3,768,915</u>
Accumulated Depreciation					
Furniture and Fixtures	(206,518)	(17,132)	-	4,758	(218,892)
Data Processing Equipment	(205,605)	(92,134)	13,859	-	(283,880)
Machinery and Equipment	(1,824,245)	(233,738)	178,505	40,522	(1,838,956)
Library and Museum	(35,511)	-	-	-	(35,511)
Buildings and Structures	(3,872)	(833)	-	-	(4,705)
Total Accumulated Depreciation	<u>(2,275,751)</u>	<u>(343,837)</u>	<u>192,364</u>	<u>45,280</u>	<u>(2,381,944)</u>
Net Capital Assets	<u>\$ 1,394,456</u>	<u>\$ 22,514</u>	<u>\$ -</u>	<u>\$ (29,999)</u>	<u>\$ 1,386,971</u>

Depreciation expense for assets owned by the agency for the year ended June 30, 2018 was allocated to the following activities in the statement of activities. All assets are held by the primary government. Depreciation was allocated based on the relative percentage to the total governmental expenses.

Resource Management Division	\$ 74,035
Water Protection Divison	11,647
Resource Protection Division	22,722
Environmental Protection Division	235,433
Total depreciation expense by program	<u>\$ 343,837</u>

The \$29,999 of automobiles were purchased by the Department and then subsequently transferred to General Services Department (business unit #35000).

The Corrective Action Fund tracks fixed assets separately. These items are now reflected in the financial statements due to a restatement described at Note 22. A summary of assets owned by the Corrective Action Fund is as follows:

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 10. CAPITAL ASSETS (CONTINUED)

Corrective Action Fund Capital Assets	Restated Balance, June 30, 2017	Additions	Deletions	Transfers/ Adjustments	Balance, June 30, 2018
Corrective Action Fund Assets	4,574,025	-	(490,039)	-	4,083,986
Total	4,574,025	-	(490,039)	-	4,083,986
Accumulated Depreciation Corrective Action Fund Assets	(4,032,721)	(191,376)	490,039	-	(3,734,058)
Total Accumulated Depreciation	(4,032,721)	(191,376)	490,039	-	(3,734,058)
Net Capital Assets	\$ 541,304	\$ (191,376)	\$ -	\$ -	\$ 349,928

Depreciation expense for the year ended June 30, 2018 was allocated to the following activities in the statement of activities.

Resource Protection Division - Petroleum Storage Tank Bureau	\$ 191,376
Total depreciation expense by program	\$ 191,376

NOTE 11. COMPENSATED ABSENCES

The following is a summary of compensated absences of the Department for the year ended June 30, 2018:

	Balance, June 30, 2017	Additions	Deletions	Balance, June 30, 2018	Due in one year
Compensated absences	\$ 1,709,217	\$ 1,585,073	\$ (1,451,207)	\$ 1,843,083	\$ 1,658,775

Substantially, all of the compensated absences balances have been paid by the General Fund in prior years. The amount of compensated absences is calculated by multiplying the accrued hours by the pay rate at year-end plus applicable payroll taxes.

NOTE 12. POLLUTION REMEDIATION OBLIGATIONS

Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), provides guidance in estimating and reporting the potential costs of pollution remediation. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care. While GASB 49 does not require the Department to search for pollution, it does require the

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 12. POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

Department to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Department is compelled to take action,
- The Department is found in violation of a pollution related permit or license,
- The Department is named, or has evidence that it will be named, as a responsible party by a regulator,
- The Department is named, or has evidence that it will be named, in a lawsuit to enforce a cleanup, or
- The Department commences or legally obligates itself to conduct remediation activities.

PSTB-related statutes requires NMED perform ongoing monitoring of the results of remediation methods applied at all sites. This monitoring includes the review of the results of the remediation activity occurring, evaluating new technologies that might be even more effective at remediation and looking at the actual historical costs that have been incurred.

The ongoing monitoring is conducted by NMED technical staff and technical contractors, and in certain situations, in consultation with the EPA. The results of this ongoing monitoring produce an updated long term remediation cost estimate each year. Ongoing monitoring and evaluation have determined the remediation estimate of future total costs of \$27,479,091 for the fiscal year ending June 30, 2018, and this total is broken down in the table below. Information regarding ongoing monitoring may be obtained by writing to NMED, Runnels Building, Santa Fe. It should be noted there are significant technical assumptions used in estimating potential liabilities, including the number of sites, the scope of the site and the chosen remediation method. The differences in any of the assumptions and actual results may significantly change the potential liabilities. All remediation costs related to Superfund Sites are paid for from the Department's General Fund. Remediation costs related to petroleum storage tanks are paid from the Corrective Action Fund.

The following details the nature of the identified sites and the *estimated* liability:

Leaking Petroleum Storage Tanks (LPST)

The Department oversees cleanups of LPST sites and reimburses eligible parties from the PST corrective action fund, which has paid for the vast majority of LPST cleanups. The corrective action fund is intended to provide for financial assurance coverage and shall be used by the Department to the extent revenues are available to make payments on behalf of owners and operators for corrective action in accordance with Section 74-6B-13 NMSA. However, per section 74-6B-7: 1) when revenues are limited and the fund can no longer be approved as a financial responsibility mechanism, priorities for expenditures from the fund shall be based on financial need, 2) nothing in this section authorizes payments or commitments for payments in excess of the funds available, and 3) within 60 days after receipt of notification that the corrective action fund has become incapable of paying assured corrective actions, the owner or operator shall obtain alternative financial assurance acceptable to the Department. The nature of the majority of LPST sites includes other identified responsible parties or sites in which there is not an imminent danger to the public health or environment and is limited as noted in Section 74-6B-7 to available funds in the corrective action fund and the Department has not recorded a remediation liability related to these sites as of June 30, 2018. However, for priority 1 State Lead sites in which there is an imminent danger to the public health or environment and the Department has obligated itself to begin remediation clean-up activities as a result of an unwilling or unable property owner. As of June 30, 2018, the estimated pollution remediation liability for leaking petroleum storage tanks is \$1,591,088.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 12. POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

Superfund

The Superfund Oversight Section of the Department assists the United States Environmental Protection Agency (EPA) in characterization of inactive hazardous waste sites; identifies sites which warrant remediation or removal action under Superfund (CERCLA); and oversees remedial activities and provides management assistance to EPA at Superfund sites listed on the National Priorities List (NPL). There are currently 16 listed Superfund sites and 4 delisted sites in New Mexico which are in various stages of investigation and remediation. Eight of these sites (6 listed and 2 delisted) are subject to State cost-share with EPA. One of the 8 State cost-share Superfund sites was placed on the NPL in April 2016. The site is currently in the remedial investigation phase in which no financial obligation exists. The Department estimates it will take at least 2 or 3 years before a Record of Decision is issued by the EPA. As of June 30, 2018, this site is excluded from the estimated pollution remediation liability.

The primary objective of the Superfund Oversight Section is to address releases or threatened releases of hazardous substances that pose an imminent or substantial endangerment to public health and safety or the environment. The major functions of the Superfund Program are to investigate and evaluate the release or threatened release of hazardous substances and identify responsible parties and remediate sites on the National Priorities List to ensure protection of human health and the environment.

The pollution remediation liability for Superfund sites was calculated by estimating the remediation liabilities for active sites in New Mexico. Sites for which one or more Potentially Responsible Parties is performing or funding the investigation and cleanup were excluded from the estimate. In cases where a viable potential responsible party has not been identified, federal funds will cover 100% of the investigation costs and 90% of the cleanup costs for up to 10 years. The state must assure payment of 10% of the cleanup costs for the first 10 years and 100% of the costs for any cleanup actions required beyond 10 years. Although there is no cost share requirement for sites where removal actions are performed, the State is responsible for 100% of post removal operation and maintenance.

Site estimates were based on budget projections to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. For sites or phases without budget projections, Superfund Program and Project Managers estimated costs for the Superfund phases of investigation and cleanup based on experience with similar sites. Site estimates may change drastically from one year to another as the investigations continue or remediation progresses. The estimate is subject to change due to price changes, technology changes, changes in applicable laws and regulations, or other unforeseen conditions. The Department does not expect any recoveries from other responsible parties that would reduce this liability. As of June 30, 2018, the estimated pollution remediation liability for Superfund sites totals \$25,888,003.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 12. POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

SUPERFUND:

	Balance, June 30, 2017	Additions	Deletions	Balance, June 30, 2018
Amount Due Within One Year	\$ 874,929	\$ 89,031	\$ (461,137)	\$ 502,823
Amount Due in More Than One Year, beginning balance	40,453,148	3,772,673	(18,840,641)	25,385,180
Total Superfund Oversight Remediation Liabilities	<u>\$ 41,328,077</u>	<u>\$ 3,861,704</u>	<u>\$ (19,301,778)</u>	<u>\$ 25,888,003</u>

LEAKING TANKS:

Amount Due Within One Year	\$ -	\$ -	\$ -	\$ -
Amount Due in More Than One Year	1,322,671	353,575	(85,158)	1,591,088
Total Leaking Tanks Remediation Liabilities	<u>\$ 1,322,671</u>	<u>\$ 353,575</u>	<u>\$ (85,158)</u>	<u>\$ 1,591,088</u>

TOTAL POLLUTION REMEDIATION LIABILITY:

Amount Due Within One Year	874,929	89,031	(461,137)	502,823
Amount Due in More Than One Year	41,775,819	4,126,248	(18,925,799)	26,976,268
Grand Total Pollution Remediation Liability	<u>\$ 42,650,748</u>	<u>\$ 4,215,278</u>	<u>\$ (19,386,935)</u>	<u>\$ 27,479,091</u>

NOTE 13. REVERSIONS

The following is a summary of reversions of the Department for fiscal year 2018:

FY18 Reversions - Amount Paid to State General Fund	\$ 72
Total Reversions Paid	<u>\$ 72</u>

Pursuant to the ADDENDA TO ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS issued by the State controller on July 14, 2017, the reversion to the State General Fund was treated as a cash transaction as of June 30th, rather than recording the amount as a liability which was the practice prior to 2017. The reversion amount was settled using the State’s adjustment period on September 17, 2018.

NOTE 14. PETROLEUM PRODUCTS LOADING FEES

The petroleum products loading fee is imposed by 7-13A-3 NMSA 1978 for the privilege of loading or importing gasoline or special fuel and is collected by the NM Taxation and Revenue Department. The Corrective Action Fund (CAF) derives most of its revenues from this fee. The amount of the fee is set by 7-13A-2 (C) NMSA 1978 and is adjusted based on the unobligated fund balance of the CAF. This information can be obtained from the Petroleum Storage Tank Bureau website at https://www.env.nm.gov/petroleum_storage_tank. The CAF received the following amount of petroleum products loading fees in fiscal year 2018:

Petroleum Products Loading Fees	<u>\$ 20,583,058</u>
---------------------------------	----------------------

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 15. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees' Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the fiscal years ending June 30, 2018, 2017, and 2016 were \$5,025,967, \$5,258,985, and \$5,281,794, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 16. POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The Department contributes to the New Mexico Retiree Health Care Fund; a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

**NOTE 16. POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA monthly. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998 are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2018, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2018, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary and each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the Legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2018, 2017 and 2016 were \$591,414, \$619,068, and \$621,759, respectively, which equal the required contributions for each year.

NOTE 17. COMMITMENTS

Corrective Action Fund (99000)

The Corrective Action Fund uses only single site contracts. Workplans are submitted and approved for all site work. The workplans will be paid for as contractors submit claims for work performed. The Department plans to pay for projects completed under the workplans from revenues received by the Corrective Action Fund from the New Mexico Taxation and Revenue Department for petroleum products loading fees.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 17. COMMITMENTS (CONTINUED)

Loan Commitments

Wastewater Loan Construction Fund - As of June 30, 2018, the Department has executed binding commitments to disburse \$18,878,440 for future loans.

Rural Infrastructure Loan Fund - As of June 30, 2018, the Department has executed binding commitments to disburse \$1,563,008 for loans and grants from the fund.

Operating Leases

The Department leases equipment, vehicles, and real property under operating leases. Operating leases do not give rise to eventual property rights or lease obligations and, therefore, the effect of the lease obligations is not reflected in the Department's liabilities. Operating leases are subject to future appropriations and are cancelable by the Department at the end of each fiscal year. The Department has commitments for lease obligations for the following periods in the following amounts:

Years Ending June 30:		
2019	\$	3,082,189
2020		3,009,753
2021		2,926,790
2022		2,467,476
2023		2,438,547
2024 and Thereafter		13,746,444
Total	\$	<u>27,671,199</u>

Rental expenditures for the fiscal year ended June 30, 2018 were \$3,023,086.

NOTE 18. CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

The Department, as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the General Services Department of the State of New Mexico. The Risk Management Division pays annual premiums for coverage provided in the following areas:

- Liability and civil rights protection for claims made by others against the State of New Mexico;
- Coverage to protect the State of New Mexico's property and assets; and
- Fringe benefit coverage for State of New Mexico employees.

In the case of civil actions or claims against the Department for financial damages, the Department's certificate of insurance with Risk Management does not cover claims for back wages, but does cover civil rights claims for other compensatory damages.

The Department is subject to various legal proceedings, claims and liabilities, including employee claims, which arise in the ordinary course of the Department's operations. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 19. RISK MANAGEMENT

The Department is exposed to various risks of loss for which the Department carries insurance with the State of New Mexico Risk Management Division (i.e., auto, employee fidelity bond, general liability, civil rights and foreign jurisdiction, money and securities, property and workers' compensation).

NOTE 20. DEFICIT FUND BALANCE

As of June 30, 2018 the Department has an unassigned deficit fund balance of approximately \$1.45 Million in its General Fund. The original cause dates to a fiscal year prior to 2008 and an exact cause cannot be determined. A consultant was hired in fiscal year 2018 to investigate the deficit. Per the consultant's report "...The deficit is likely a result of not recovering adequate costs incurred in the General Fund from either federal grants or the special revenue funds of the Department over a period of time or possibly in specific years." Additionally, the consultant's report indicates that although there have been some fluctuations over the years, the actual amount of the deficit "has remained fairly constant from 2012-2017." The deficit decreased in fiscal year 2018.

NOTE 21. SUBSEQUENT ACCOUNTING STANDARD PRONOUNCEMENTS

GASB has issued the following statements, which are applicable in future years. At this time management has not determined the impact, if any, on the Department.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Department is still evaluating how this pronouncement will affect future financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Department is still evaluating how this pronouncement will affect future financial statements.

In June 2017, GASB Statement No. 87, *Leases* was issued. Effective Date: For reporting periods beginning after December 15, 2019. The Department is still evaluating how this pronouncement will affect future financial statements.

In April 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt*, was issued. Effective Date: For reporting periods beginning after June 15, 2018. The Department is still evaluating how this pronouncement will affect future financial statements.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 22. NET POSITION RESTATEMENT:

NMED made a prior period adjustment in order to correctly present capital assets owned by the Corrective Action Fund. The prior period adjustment affects the financial statements as follows:

- Total Corrective Action Fund Fixed Assets at June 30, 2017: \$4,574,025
- Total related depreciation at June 30, 2017: (\$4,032,721)
- Net restatement amount: \$541,304

Historically, there had been conflicting guidance regarding presentation of these items on the financial statements. During FY18 NMED clarified that although these assets are purchased through contractors, the items do in fact belong to NMED, and therefore must be included in the financial statements.

NOTE 23. SUBSEQUENT EVENTS:

Management has evaluated events between the date of the financial statements and October 30, 2018, the earliest date the financial statements have been available for release. The 2018 New Mexico Legislature granted a 2% salary increase to all State of New Mexico employees in good standing. This increase was effective for the first full pay period in fiscal year 2019.

NEW MEXICO ENVIRONMENT DEPARTMENT
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

SPECIAL REVENUE FUNDS. The purpose of the Special Revenue Funds is to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Recycling and Illegal Dumping Fund (02600) - Established by the Department to comply with Recycling and Illegal Dumping Act, NMSA 1978, Section 74-13-19. The purpose of this fund is for abatement of tire dumps; reprocessing, transportation or recycling of scrap tires; providing annual retread rebates; and carrying out the provisions of the Recycling and Illegal Dumping Act. This fund is non-reverting.

Voluntary Remediation Fund (06600) - Created by State Statute NMSA 1978, Section 74-4G-11. The purpose of this fund is to account for fees and oversight payments collected pursuant to regulation adopted by the Secretary of the Environment Department pursuant to the provisions of the Voluntary Remediation Act. This fund is non-reverting.

Nuclear Workers Assistance Fund (10980) - Created by State Statute NMSA 1978, Section 74-1-17. This fund was established for administration of a program to assist nuclear workers seeking claims under the federal Energy Employees Occupation Illness Compensation Program Act of 2000, 42 USC 7384 et seq. This fund is non-reverting.

Brownfields Cleanup Revolving Loan Fund (11900) - Created by State Statute NMSA 1978, Section 74-4G-11.1. The fund was established to account for the Brownsfield Cleanup Revolving Loan Fund. The funds are obtained through a grant from the Environmental Protection Agency. The funds are for the repayments of loans and interest. Income is accrued on the balance of the fund. This fund is non-reverting.

Responsible Parties Fund (24800) - Created by State Statute NMSA 1978, Section 74-6B-7 for removing leaking underground storage tanks. This fund is non-reverting.

Hazardous Waste Fund (33900) - Created by State Statute NMSA 1978, Section 74-4-4.5. The purpose of the fund is to meet necessary expenditures in the administration and operation of the hazardous waste program. This fund is non-reverting.

Liquid Waste Fund (34000) - Created by State Statute NMSA 1978, Section 74-1-15. The fund was established for the administration of liquid waste regulations. Source of funding: Permits and fees. This fund is non-reverting.

Water Quality Management Fund (34100) - Created by State Statute NMSA 1978, Section 74-6-5.2. The fund was established for administering the regulation adopted by the Water Quality Control Commission. This fund is non-reverting.

Water Recreation Facilities Fund (40000) - Created by State Statute NMSA 1978, Section 74-1-16. The fund was created to be used to administer and enforce rules pertaining to public swimming pools, public spas and other public water recreation facilities. Source of funding: Fees. This fund is non-reverting.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2018**

Water Conservation Fund (56700) - Created by State Statute NMSA 1978, Section 74-1-13. It was established for administration of a public water supply program to (1) test public water supplies, (2) perform vulnerability assessments, (3) implement new requirements of the Utility Operators Certification Act, and (4) provide training for all public water supply operators. This fund is non-reverting. Source of funding: Fees through New Mexico Taxation and Revenue Department. This fund is non-reverting.

Public Water Supply System Operator and Public Wastewater Operator Fund (58400) - Created by State Statute NMSA 1978, Section 61-33-5. The fund shall be used solely for administering and enforcing the Utility Operators Certification Act. Fees collected shall be deposited with the state treasurer in the “public water supply system operator and public wastewater facility operator fund”, hereby created. The fund shall be administered by the Department. Money in the fund shall be retained by the Department for use, subject to appropriation by the legislature. Balances in the fund at the end of any fiscal year shall not revert to the General Fund, but shall accrue to the credit of the fund. Earnings on the fund shall be credited to the fund. This fund is non-reverting.

Radiation Protection Fund (59200) - Created by State Statute NMSA 1978, Section 74-3-5.1. The fund was established to carry out provisions of the Radiation Protection Act. Source of funding: Fees and licenses. This fund is non-reverting.

State Air Quality Permit Fund (63100) - Created by State Statute NMSA 1978, Section 74-2-15. The fund is to be used for paying the reasonable costs of (1) reviewing and acting upon any application for a permit; (2) permits issued; (3) emissions and ambient monitoring; (4) preparing applicable regulations or guidance; (5) modeling, analysis and demonstrations; and (6) preparing inventories and tracking emissions. This fund is non-reverting.

Solid Waste Facility Grant Fund (63200) - Created by NMSA 1978, Section 74-9-41. The Solid Waste Facility Grant Fund was administratively established to administer grants to New Mexico counties and municipalities to construct solid waste facilities. This fund is non-reverting.

Penalties Fund (65200) – This fund formerly an agency fund and has been reclassified for fiscal year 2017 forward to a special revenue fund. It is used to account for settlements, penalties, fees and reimbursements. The civil penalties are required to be paid to the general fund and are transferred, or reverted, monthly to the State General Fund. In future years, the penalties may go directly to the State General Fund. Statutory authority for this fund is related to the statutes which create the revenue streams; Air Quality Control Act and Occupational Health and Safety Act (OSHA) penalties (NMSA 1978 50-9-24 and 74-2-12).

Solid Waste Permit Fees (78300) - Created by State Statute NMSA 1978, Section 74-9-8I. The Solid Waste Act is to administer the Solid Waste Penalty Fees. The Statute established an applicant fee schedule for processing permit applications that is based on costs of application review incurred by the division. This fund is non-reverting.

ARRA Fund (89000) – The Department ARRA Special Revenue Fund was administratively created by NM Department of Finance and Administration and is used to account for the activity related to the funding provided by the federal government under the American Recovery and Reinvestment Act. This fund is non-reverting. All activity is segregated to ensure:

**NEW MEXICO ENVIRONMENT DEPARTMENT
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2018**

- Funds are awarded and distributed in a prompt, fair and reasonable manner;
- The recipients and uses of all funds are transparent to the public. The public benefits of these funds are reported clearly, accurately and in a timely manner;
- Funds are used for authorized purposes and instances of fraud, waste, error and abuse are mitigated;
- Projects funded under this Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

Hazardous Waste Emergency Fund (95700) - Created by State Statute NMSA 1978, Section 74-4-8. This fund shall be used for cleanup of hazardous substance incidents, disposal of hazardous substance and necessary repairs to, or replacement of, state property and may be used for the State's share of any response action taken under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980. This fund is non-reverting.

Radiologic Technology Fund (98700) - Created by State Statute NMSA 1978, Section 61-14E-10. The purpose of the fund is to meet necessary expenditures incurred in the enforcement of the Medical Radiation Health and Safety Act. The Act established standards and requirements for the education and training of persons operating medical equipment emitting ionizing radiation. Source of funding: Fees. This fund is non-reverting.

Storage Tank Fund (98900) - Created by State Statute NMSA 1978, Section 74-4-4.8. The sole purpose of the fund is to meet necessary expenditures in the administration and operation of the underground storage tank program: specifically, to (1) review and act upon applications for the registration of underground storage tanks, (2) review and act upon applications for the certification of tank installers, and (3) implement and enforce any provision of the Hazardous Waste Act applicable to underground storage tanks and tank installers, including standards for the installation, operation and maintenance of underground storage tanks and for the certification of tank installers. This fund is non-reverting.

Food Service Sanitation Fund (99100) - Created by State Statute NMSA 1978, Section 25-1-5.1. The purpose of the fund is to pay the cost of administering regulations promulgated by the Environmental Improvement Board to carry out the provisions of the Food Service Sanitation Act. Source of funding: Fees. This fund is non-reverting.

**NEW MEXICO ENVIRONMENT DEPARTMENT
 COMBINING BALANCE SHEET – NON-MAJOR
 GOVERNMENTAL FUNDS
 JUNE 30, 2018**

	SPECIAL REVENUE FUNDS			
	02600	06600	10980	11900
	Recycling and Illegal Dumping Fund	Voluntary Remediation Fund	Nuclear Workers Assistance Fund	Brownfields Cleanup Revolving Loan Fund
ASSETS				
Investment in State General Fund Investment Pool	\$ 1,624,780	\$ 66,879	\$ 106,546	\$ 276,730
Due from Federal Government	-	-	-	91,069
Due from Other State Agencies	-	-	-	-
Other Receivables	-	-	-	1,713,360
Total Assets	\$ 1,624,780	\$ 66,879	\$ 106,546	\$ 2,081,159
LIABILITIES				
Accounts Payable	\$ 223,251	\$ -	\$ -	\$ -
Due to Federal Government	-	-	-	-
Due to Other State Agencies	-	-	-	-
Due to State General Fund	-	-	-	-
Other Liabilities	-	225	-	-
Unearned Revenues	-	-	-	-
Accrued Payroll Liabilities	-	-	-	-
Total Liabilities	223,251	225	-	-
FUND BALANCES				
Restricted	1,401,529	66,654	106,546	2,081,159
Total Fund Balances	1,401,529	66,654	106,546	2,081,159
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,624,780	\$ 66,879	\$ 106,546	\$ 2,081,159

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2018**

	SPECIAL REVENUE FUNDS				
	24800	33900	34000	34100	40000
	Responsible Parties Fund	Hazardous Waste Fund	Liquid Waste Fund	Water Quality Management Fund	Water Recreation Facilities Fund
ASSETS					
Investment in State General					
Fund Investment Pool	\$ 129,129	\$ 1,232,520	\$ 887,952	\$ 464,545	\$ 320,184
Due from Federal Government	-	-	-	-	-
Due from Other State Agencies	-	-	-	-	-
Other Receivables	-	50,500	3,000	-	-
Total Assets	\$ 129,129	\$ 1,283,020	\$ 890,952	\$ 464,545	\$ 320,184
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Federal Government	-	-	-	-	-
Due to Other State Agencies	-	-	-	-	-
Due to State General Fund	-	-	-	-	-
Other Liabilities	-	-	-	-	-
Unearned Revenues	2,680	100,000	-	-	-
Accrued Payroll Liabilities	-	-	-	-	-
Total Liabilities	2,680	100,000	-	-	-
FUND BALANCES					
Restricted	126,449	1,183,020	890,952	464,545	320,184
Total Fund Balances	126,449	1,183,020	890,952	464,545	320,184
TOTAL LIABILITIES AND FUND BALANCES	\$ 129,129	\$ 1,283,020	\$ 890,952	\$ 464,545	\$ 320,184

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2018**

	SPECIAL REVENUE FUNDS			
	56700	58400	59200	63100
	Water Conservation Fund	Public Water Supply System Operator and Public Wastewater Facility Operator Fund	Radiation Protection Fund	State Air Quality Permit Fund
ASSETS				
Investment in State General Fund Investment Pool	\$ 2,408,723	\$ 61,662	\$ 1,088,545	\$ 3,480,157
Due from Federal Government	-	-	-	-
Due from Other State Agencies	277,709	-	-	-
Other Receivables	5,266	-	38,223	6,801
Total Assets	\$ 2,691,698	\$ 61,662	\$ 1,126,768	\$ 3,486,958
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Federal Government	-	-	-	-
Due to Other State Agencies	-	-	-	-
Due to State General Fund	-	-	-	-
Other Liabilities	-	-	-	-
Unearned Revenues	-	-	-	-
Accrued Payroll Liabilities	-	-	-	-
Total Liabilities	-	-	-	-
FUND BALANCES				
Restricted	2,691,698	61,662	1,126,768	3,486,958
Total Fund Balances	2,691,698	61,662	1,126,768	3,486,958
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,691,698	\$ 61,662	\$ 1,126,768	\$ 3,486,958

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2018**

	SPECIAL REVENUE FUNDS				
	63200	65200	78300	89000	95700
	Solid Waste Facility Grant Fund	Penalties Fund	Solid Waste Permit Fees	ARRA Fund	Hazardous Waste Emergency Fund
ASSETS					
Investment in State General Fund Investment Pool	\$ 138,722	\$ -	\$ 122,665	\$ 54	\$ 1,559,682
Due from Federal Government	-	-	-	-	-
Due from Other State Agencies	-	-	-	-	-
Other Receivables	-	-	-	-	65,519
Total Assets	\$ 138,722	\$ -	\$ 122,665	\$ 54	\$ 1,625,201
LIABILITIES					
Accounts Payable	\$ 100,000	\$ -	\$ -	\$ -	\$ -
Due to Federal Government	-	-	-	54	-
Due to Other State Agencies	-	-	-	-	-
Due to State General Fund	-	-	-	-	-
Other Liabilities	-	-	-	-	-
Unearned Revenues	-	-	-	-	-
Accrued Payroll Liabilities	-	-	-	-	-
Total Liabilities	100,000	-	-	54	-
FUND BALANCES					
Restricted	38,722	-	122,665	-	1,625,201
Total Fund Balances	38,722	-	122,665	-	1,625,201
TOTAL LIABILITIES AND FUND BALANCES	\$ 138,722	\$ -	\$ 122,665	\$ 54	\$ 1,625,201

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2018**

	SPECIAL REVENUE FUNDS				Total All Non-Major Funds
	98700	98900	99100	Total	
	Radiologic Technology Fund	Storage Tank Fund	Food Service Sanitation Fund	Special Revenue Funds	
ASSETS					
Investment in State General					
Fund Investment Pool	\$ 244,110	\$ 626,531	\$ 1,668,327	\$ 16,508,443	\$ 16,508,443
Due from Federal Government	-	-	-	91,069	91,069
Due from Other State Agencies	-	-	-	277,709	277,709
Other Receivables	-	7,425	17,700	1,907,794	1,907,794
Total Assets	<u>\$ 244,110</u>	<u>\$ 633,956</u>	<u>\$ 1,686,027</u>	<u>\$ 18,785,015</u>	<u>\$ 18,785,015</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ 323,251	\$ 323,251
Due to Federal Government	-	-	-	54	54
Due to Other State Agencies	-	-	-	-	-
Due to State General Fund	-	-	-	-	-
Other Liabilities	-	-	-	225	225
Unearned Revenues	-	231,521	41,700	375,901	375,901
Accrued Payroll Liabilities	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>231,521</u>	<u>41,700</u>	<u>699,431</u>	<u>699,431</u>
FUND BALANCES					
Restricted	244,110	402,435	1,644,327	18,085,584	18,085,584
Total Fund Balances	<u>244,110</u>	<u>402,435</u>	<u>1,644,327</u>	<u>18,085,584</u>	<u>18,085,584</u>
-					
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 244,110</u>	<u>\$ 633,956</u>	<u>\$ 1,686,027</u>	<u>\$ 18,785,015</u>	<u>\$ 18,785,015</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	SPECIAL REVENUE FUNDS			
	02600	06600	10980	11900
	Recycling and Illegal Dumping Fund	Voluntary Remediation Fund	Nuclear Workers Assistance Fund	Brownfields Cleanup Revolving Loan Fund
REVENUES				
Environmental Fees	\$ 966,071	\$ 15,405	\$ 56,925	\$ -
Federal Grant Revenue	-	-	-	526,126
Other Revenue	-	-	-	4,780
Total Revenues	<u>966,071</u>	<u>15,405</u>	<u>56,925</u>	<u>530,906</u>
EXPENDITURES				
Current:				
Environmental Protection	556,858	-	-	-
Total Expenditures	<u>556,858</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	409,213	15,405	56,925	530,906
OTHER FINANCING SOURCES (USES)				
Grants to other organizations	-	-	-	-
Transfers from Other Agencies	-	-	-	-
Transfers - Bond Proceeds appropriations	-	-	-	-
Transfers to Other Agencies	-	-	-	-
Transfers - INTRA Agency	(60,079)	(41,738)	(21,182)	(1,041)
Total Other Financing Sources (Uses)	<u>(60,079)</u>	<u>(41,738)</u>	<u>(21,182)</u>	<u>(1,041)</u>
NET CHANGES IN FUND BALANCES	349,134	(26,333)	35,743	529,865
Fund Balances - Beginning of Year	<u>1,052,395</u>	<u>92,987</u>	<u>70,803</u>	<u>1,551,294</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,401,529</u>	<u>\$ 66,654</u>	<u>\$ 106,546</u>	<u>\$ 2,081,159</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	SPECIAL REVENUE FUNDS				
	24800	33900	34000	34100	40000
	Responsible Parties Fund	Hazardous Waste Fund	Liquid Waste Fund	Water Quality Management Fund	Water Recreation Facilities Fund
REVENUES					
Environmental Fees	\$ 141,202	\$ 2,377,184	\$ 398,500	\$ 477,342	\$ 153,500
Federal Grant Revenue	-	-	-	-	-
Other Revenue	-	-	5,720	-	-
Total Revenues	<u>141,202</u>	<u>2,377,184</u>	<u>404,220</u>	<u>477,342</u>	<u>153,500</u>
EXPENDITURES					
Current:					
Environmental Protection	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	141,202	2,377,184	404,220	477,342	153,500
OTHER FINANCING SOURCES (USES)					
Grants to other organizations	-	-	-	-	-
Transfers from Other Agencies	-	-	-	-	-
Transfers - Bond Proceeds appropriations	-	-	-	-	-
Transfers to Other Agencies	-	-	-	-	-
Transfers - INTRA Agency	(160,551)	(2,388,416)	(211,890)	(676,129)	(126,894)
Total Other Financing Sources (Uses)	<u>(160,551)</u>	<u>(2,388,416)</u>	<u>(211,890)</u>	<u>(676,129)</u>	<u>(126,894)</u>
NET CHANGES IN FUND BALANCES	(19,349)	(11,232)	192,330	(198,787)	26,606
Fund Balances - Beginning of Year	<u>145,798</u>	<u>1,194,252</u>	<u>698,622</u>	<u>663,332</u>	<u>293,578</u>
FUND BALANCES - END OF YEAR	<u>\$ 126,449</u>	<u>\$ 1,183,020</u>	<u>\$ 890,952</u>	<u>\$ 464,545</u>	<u>\$ 320,184</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

SPECIAL REVENUE FUNDS

	56700	58400	59200	63100	63200
	Water Conservation Fund	Public Water Supply System Operator and Public Wastewater Facility Operator Fund	Radiation Protection Fund	State Air Quality Permit Fund	Solid Waste Facility Grant Fund
REVENUES					
Environmental Fees	\$ 2,167,587	\$ 78,034	\$ 980,136	\$ 4,535,948	\$ 9,996
Federal Grant Revenue	-	-	-	-	-
Other Revenue	-	407	4,983	-	1,146
Total Revenues	<u>2,167,587</u>	<u>78,441</u>	<u>985,119</u>	<u>4,535,948</u>	<u>11,142</u>
EXPENDITURES					
Current:					
Environmental Protection	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,167,587	78,441	985,119	4,535,948	11,142
OTHER FINANCING SOURCES (USES)					
Grants to other organizations	-	-	-	-	(100,000)
Transfers from Other Agencies	-	-	-	-	-
Transfers - Bond Proceeds appropriations	-	-	-	-	-
Transfers to Other Agencies	-	-	-	-	-
Transfers - INTRA Agency	(2,801,872)	(75,441)	(707,272)	(1,881,927)	-
Total Other Financing Sources (Uses)	<u>(2,801,872)</u>	<u>(75,441)</u>	<u>(707,272)</u>	<u>(1,881,927)</u>	<u>(100,000)</u>
NET CHANGES IN FUND BALANCES	(634,285)	3,000	277,847	2,654,020	(88,858)
Fund Balances - Beginning of Year	<u>3,325,983</u>	<u>58,662</u>	<u>848,921</u>	<u>832,938</u>	<u>127,580</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,691,698</u>	<u>\$ 61,662</u>	<u>\$ 1,126,768</u>	<u>\$ 3,486,958</u>	<u>\$ 38,722</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	SPECIAL REVENUE FUNDS				
	65200	78300	89000	95700	98700
	Penalties Fund	Solid Waste Permit Fees	ARRA Fund	Hazardous Waste Emergency Fund	Radiologic Technology Fund
REVENUES					
Environmental Fees	\$ -	\$ 42,600	\$ -	\$ 283,334	\$ 108,900
Federal Grant Revenue	-	-	-	-	-
Other Revenue	\$ -	-	-	-	-
Total Revenues	-	42,600	-	283,334	108,900
EXPENDITURES					
Current:					
Environmental Protection	-	-	-	-	-
Total Expenditures	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	42,600	-	283,334	108,900
OTHER FINANCING SOURCES (USES)					
Grants to other organizations	-	-	-	-	-
Transfers from Other Agencies	-	-	-	-	-
Transfers - Bond Proceeds appropriations	-	-	-	-	-
Transfers to Other Agencies	-	-	-	-	-
Transfers - INTRA Agency	-	(44,806)	-	(165,281)	(88,521)
Total Other Financing Sources (Uses)	-	(44,806)	-	(165,281)	(88,521)
NET CHANGES IN FUND BALANCES	-	(2,206)	-	118,053	20,380
Fund Balances - Beginning of Year	-	124,871	-	1,507,148	223,730
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 122,665</u>	<u>\$ -</u>	<u>\$ 1,625,201</u>	<u>\$ 244,110</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	SPECIAL REVENUE FUNDS			
	98900	99100		
	Storage Tank Fund	Food Service Sanitation Fund	Total Special Revenue Funds	Total All Non-Major Funds
REVENUES				
Environmental Fees	\$ 459,845	\$ 1,467,975	\$ 14,720,484	\$ 14,720,484
Federal Grant Revenue	-	-	526,126	526,126
Other Revenue	-	-	17,036	17,036
Total Revenues	<u>459,845</u>	<u>1,467,975</u>	<u>15,263,646</u>	<u>15,263,646</u>
EXPENDITURES				
Current:				
Environmental Protection	-	-	556,858	556,858
Total Expenditures	<u>-</u>	<u>-</u>	<u>556,858</u>	<u>556,858</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	459,845	1,467,975	14,706,788	14,706,788
OTHER FINANCING SOURCES (USES)				
Grants to other organizations	-	-	(100,000)	(100,000)
Transfers from Other Agencies	-	-	-	-
Transfers - Bond Proceeds appropriations	-	-	-	-
Transfers to Other Agencies	-	-	-	-
Transfers - INTRA Agency	(314,438)	(1,733,940)	(11,501,418)	(11,501,418)
Total Other Financing Sources (Uses)	<u>(314,438)</u>	<u>(1,733,940)</u>	<u>(11,601,418)</u>	<u>(11,601,418)</u>
NET CHANGES IN FUND BALANCES	145,407	(265,965)	3,105,370	3,105,370
Fund Balances - Beginning of Year	<u>257,028</u>	<u>1,910,292</u>	<u>14,980,214</u>	<u>14,980,214</u>
FUND BALANCES - END OF YEAR	<u>\$ 402,435</u>	<u>\$ 1,644,327</u>	<u>\$ 18,085,584</u>	<u>\$ 18,085,584</u>

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE 1 – SUPPLEMENTAL SCHEDULE OF
SEVERANCE TAX BOND APPROPRIATION REVENUE
YEAR ENDED JUNE 30, 2018**

Laws	Chapter	Amount Authorized	Amount De Authorized	Art in Public Places	Amount Available	Expenditures Reported Prior Years (unaudited)	Expenditures Reported Current Year	Amount Reverted	6/30/18 Balance Available
2014	66	\$ 53,964,737	\$ (10,775,247)	\$ (1,050)	\$ 43,188,440	\$ (29,545,332)	\$ (12,881,136)	(329,431)	\$ 432,541
2015	147 / 3	17,332,857	(3,245,688)	-	14,087,169	(5,483,974)	(6,364,509)	(95,118)	\$ 2,143,568
2016	81	17,333,797	(4,761,197)	(7,142)	12,565,458	(905,058)	(5,549,416)	(571)	\$ 6,110,413
2017	133	3,898,324	-	-	3,898,324	-	(196,137)	(93)	\$ 3,702,094
2018	80/68	12,147,175	-	(1,503)	12,145,672	-	(583,163)	-	\$ 11,562,509
		<u>\$ 104,676,890</u>	<u>\$ (18,782,132)</u>	<u>\$ (9,695)</u>	<u>\$ 85,885,063</u>	<u>\$ (35,934,364)</u>	<u>\$ (25,574,361)</u>	<u>\$ (425,213)</u>	<u>\$ 23,951,125</u>

Reconciliation to the Financial Statements:

Governmental Funds

Severance Tax Bond Appropriation Revenue \$ 25,574,361

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE 2 – SUPPLEMENTAL SCHEDULE OF
SPECIAL APPROPRIATIONS
YEAR ENDED JUNE 30, 2018**

Description	Authority	Appropriation Period	Share Fund	Total Original Appropriation	Expenditures Reported Prior Years	Current Year Expenditures	Encumbrances	Current Year Reversion Amount	Remaining Balance at 6/30/18
Environmental Litigation	Z40565	Laws 2014, Chapter 63	06400	\$ 1,500,000	\$ 915,191	\$ 506,238	\$ -	\$ -	\$ 78,571
Environmental Litigation	ZC5564A	Laws 2018, Chapter 73	99000	\$ 2,000,000	-	1,000,000	-	-	1,000,000
Total General Fund				3,500,000	915,191	1,506,238	-	-	1,078,571
Capital Project Appropriations	A151069	Laws 2015, Chapter 3	06400	500,000	8,391	198,891	-	-	292,717
Total Capital Project Funds				500,000	8,391	198,891	-	-	292,717
Total All Funds				\$ 4,000,000	\$ 923,582	\$ 1,705,129	\$ -	\$ -	\$ 1,371,288

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Participating Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Air Pollution Control Program Support				
Micro-Inventory Fugitive Dust Sources	66.001		\$ -	\$ 9,897
FY1 18-19 Air Pollution Control Sec 105 Grant	66.001		-	1,369,776
			-	1,379,673
State Indoor Radon Grants				
FFY17-18 Indoor Radon Grant	66.032		-	214,544
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act				
FY17-18 PM 2.5 Air Monitoring - 103 Grant	66.034		-	45,683
Clean Diesel Program Grants				
FY16 State Clean Diesel Program	66.040		316,680	1,774
Multipurpose Grants to States and Tribes				
ENVGKMMMP - Gold King Mine (Animas) Multi-Purpose Statewide Air Pollution and Water Protection	66.204 66.204		107,949 -	- 36,097
			107,949	36,097
Water Pollution Control State, Interstate, and Tribal Program Support				
ENVGKM - Gold King Mine (Animas) Phase 2	66.419		230,743	-
FY17-18 CWA Section 106 Grant Supplemental Monitoring Initiative	66.419		-	101,428
FY18-19 CWA Section 106	66.419		-	1,530,282
SW 106 Supplemental Monitoring - FFY 15	66.419		-	38,438
			230,743	1,670,148
State Public Water System Supervision				
FY17 Public Water Supply Supervision (PWSS)	66.432		-	1,059,203
State Underground Water Source Protection				
Pass-thru via NM Energy and Minerals FY 18 Underground Injection Control (UIC)	66.433	Not Available	-	50,352
Water Quality Management Planning				
FY16-17 Water Quality Management Planning - 604(b)	66.454		-	119,851
Clean Water State Revolving Funds (CWSRF) Cluster				
Capitalization Grants for CWSRF, Grant	66.458		6,474,000	-
Nonpoint Source Implementation Grants				
FY 14-15 319 NPS Implementation - Surface Water	66.460		-	590,314
FY 16-17 319 Grant Project Implement - Surface Water	66.460		-	279,227
FY 18-19 319 Nonpoint Source Implementation Grant	66.460		-	1,030,131
			-	1,899,672
Regional Wetland Program Development Grants				
NMED Wetlands	66.461		-	681,636
Drinking Water State Revolving Funds (DWSRF) Cluster				
Pass-thru via NM Finance Authority				
FFY 14 Drinking Water State Revolving Fund Cap Grant	66.468	Not Available	-	138,295
FFY 15 Drinking Water State Revolving Fund Cap Grant	66.468	Not Available	-	1,069,325
FFY 16 Drinking Water State Revolving Fund Cap Grant	66.468	Not Available	-	898,925
FFY 17 Drinking Water State Revolving Fund Cap Grant	66.468	Not Available	-	443,929
			-	2,550,474

See notes to Schedule of Expenditures of Federal Awards.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Participating Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY (CONTINUED)				
Environmental Information Exchange Network Grant Program				
FY 13 Exchange Network	66.608		\$ -	\$ 41,629
FY 15 Exchange Network Grant Program	66.608		-	61,438
FY 15 Exchange Network Grant Program ICIS-Air Dataflow	66.608		-	13,410
FY 15 SWQB SQUID/Attains Grant Project	66.608		-	77,380
			<u>-</u>	<u>193,857</u>
Hazardous Waste Management State Program Support				
Resource Conservation and Recovery Act (RCRA)	66.801		-	1,018,768
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements				
ENVGKMP1 - Gold King Mine (Animas) Phase 1	66.802		91,143	-
FY 13 Superfund Grant	66.802		-	460,304
FY 15 NMED Five Year Bulk Funding	66.802		-	134,006
FY17 North Railroad Ave Plume Grant	66.802		-	366,228
McGaffey & Main Ground Water Plume	66.802		-	87,204
Remedial Action Oversight of the Chevron Questa Mine - EMNRD	66.802		32,553	2,166
Superfund - Eagle Pitcher Remedial Design	66.802		-	274,779
Superfund Oversight of the Chevron Questa Mine	66.802		-	215,129
Superfund Tronox	66.802		-	12,032
Superfund Tronox - EMNRD	66.802		6,409	1,740
			<u>130,105</u>	<u>1,553,588</u>
Underground Storage Tank Prevention, Detection and Compliance Program				
FY 17 Leaking Underground Storage Tank (LUST) PD&C Program	66.804		-	361,470
Leaking Underground Storage Tank Trust Fund Corrective Action Program				
FY 17 Leaking Underground Storage Tank (LUST) Corrective Action P1	66.805		-	727,387
Brownfields Assessment and Cleanup Cooperative Agreements				
FY 14 NM Brownfields State Response Program	66.818		-	539,838
State and Tribal Response Program Grants				
NM State Response Program	66.817		-	386,593
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>7,259,477</u>	<u>14,490,588</u>
U.S. DEPARTMENT OF ENERGY				
Environmental Monitoring and Clean-up				
DOE Environmental Oversight and Monitoring for LANL and Sandia Lab	81.214		-	2,103,570
DOE WIPP Oversight AIP	81.214		-	326,752
			<u>-</u>	<u>2,430,322</u>

See Notes to Schedule of Expenditures of Federal Awards.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Participating Expenditures
U.S. DEPARTMENT OF ENERGY				
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions				
Pass-thru via NM Energy and Minerals				
FY 18 WIPP Emergency Response	81.106	Not Available	\$ -	\$ 139,801
Other Programs				
GNOME Coach and Gasbuggy Nuclear Test Sites	81.136		-	1,020
NM Uranium Mill Tailings Radiation Control Act Tech Support	81.136		-	43,550
			-	44,570
TOTAL U.S. DEPARTMENT OF ENERGY			-	2,614,693
U.S. DEPARTMENT OF DEFENSE				
State Memorandum of Agreement Program for the Reimbursement of Technical Services				
16-18 Defense and State Memorandum of Agreement (DSMOA)	12.113		-	9,063
Estuary Habitat Restoration Program				
Kirtland AFB Cooperative Agreement	12.130		-	112,515
TOTAL U.S. DEPARTMENT OF DEFENSE			-	121,578
U.S. DEPARTMENT OF LABOR				
Occupational Safety and Health State Program				
FFY 17 OSHA Implementation 23(G)	17.503		-	287,581
FFY 18 OSHA 23 (G) State Plan Implementation	17.503		-	666,693
			-	954,274
Consultation Agreements				
FFY 17 OSHA Consultation 21 (d)	17.504		-	173,702
FFY 18 OSHA 21 (d) State Consultation Program	17.504		-	386,210
			-	559,912
OSHA Data Initiative				
FFY 17 OSHA BLS Statistics	17.005		-	19,026
FFY 18 OSHA BLS Statistics	17.005		-	55,334
			-	74,360
TOTAL U.S. DEPARTMENT OF LABOR			-	1,588,546
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Food and Drug Administration Research				
Conformance with the Retail Program Standards	93.103			36,101
Conformance with the Manufactured Food Regulatory Program	93.103			272,340
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			-	308,441
TOTAL EXPENDITURES FEDERAL AWARDS			\$ 7,259,477	\$ 19,123,846
RECONCILIATION TO FINANCIAL STATEMENTS				
Governmental Funds - Federal Grant Revenue				\$ 19,900,646
Enterprise Funds - Federal Grant Revenue				6,474,000
Gold King Mine prior year adjustment				125,144
Air Pollution Control Adjustment				236
Other Contract				(116,704)
				\$ 26,383,322

See Notes to Schedule of Expenditures of Federal Awards.

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

BASIS OF ACCOUNTING

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

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 Department has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NON-CASH ASSISTANCE

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

LOANS

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

SUBRECIPIENTS

The Clean Water State Revolving Loan Fund (“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 can be paid up to 30 years and all repayments, including interest and principal, must remain within the Wastewater Facility Construction Loans Fund of the Fund. Capitalization loans processed for CWSRF for the year ended June 30, 2018 were \$22,330,309. CWSRF outstanding loans at June 30, 2018 were \$171,114,901. The Fund provided in fiscal year 2018 \$1,110,728 in grants to various communities throughout New Mexico to subsidize their loans.

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

The Department received federal grant funding from the Environmental Protection Agency (“EPA”) passed through to other subrecipients as detailed in the table below:

**NEW MEXICO ENVIRONMENT DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

SUBRECIPIENTS (CONTINUED)

	Federal Grant	Federal Revolving	Total
FY16 State Clean Diesel Program			
ALB PUBLIC SCHOOL MUNICIPAL DIST 12	\$316,680		\$316,680
Gold King Mine (Animas) Multi-Purpose			
REGENTS OF NEW MEXICO STATE UNIVERSITY	\$107,949		\$107,949
Gold King Mine (Animas) Phase 2			
NEW MEXICO INSTITUTE OF MINING & TECH	\$177,367		\$177,367
REGENTS OF NEW MEXICO STATE UNIVERSITY	\$53,375		\$53,375
	<u>\$230,743</u>	<u>\$0</u>	<u>\$230,743</u>
Gold King Mine (Animas) Phase 1			
NEW MEXICO INSTITUTE OF MINING & TECH	\$21,937		\$21,937
NM Department of Homeland Security	\$69,205		\$69,205
	<u>\$91,143</u>	<u>\$0</u>	<u>\$91,143</u>
Remedial Action Oversight of the Chevron Questa Mine			
Energy Minerals & Natural Resources Department	\$32,553		\$32,553
Superfund Tronox			
Superfund Tronox - EMNRD	\$6,409		\$6,409
FY18 NM Captialization Clean Water State Revolving Fund Total			
City of Aztec		\$756,612	\$756,612
City of Grants		\$2,885,419	\$2,885,419
City of Santa Rosa		\$47,309	\$47,309
Village of Peralta		\$179,748	\$179,748
Town of Carlsbad		\$38,199	\$38,199
Village of Taos Ski Valley		\$160,802	\$160,802
Town of Farmington		\$1,647,486	\$1,647,486
San Juan County		\$264,100	\$264,100
Village of Cuba	\$89,625	\$404,700	\$494,325
	<u>\$89,625</u>	<u>\$6,384,375</u>	<u>\$6,474,000</u>
Grand Total	<u><u>\$875,102</u></u>	<u><u>\$6,384,375</u></u>	<u><u>\$7,259,477</u></u>

Wayne A. Johnson
State Auditor



C. Jack Emmons, CPA, CFE
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

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

Mr. Butch Tongate
New Mexico Environment Department

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons of the general fund and the major special revenue fund, of the New Mexico Environment Department (the Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

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

2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507
Phone (505) 476-3800 Fax (505) 827-3512
www.osanm.org 1-866-OSA-FRAUD

Mr. Butch Tongate
New Mexico Environment Department

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported per Section 12-6-5 NMSA 1978 that we have described in the Schedule of Findings and Questioned Costs as items 2018-002, 2018-003 and 2018-004.

The Department's Response to Findings

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



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



Wayne A. Johnson
State Auditor

C. Jack Emmons, CPA, CFE
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

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

Mr. Butch Tongate
New Mexico Environment Department

Report on Compliance for Each Major Federal Program

We have audited New Mexico Environment Department's (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2018. The Department's major federal programs are 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 Department's major federal programs 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 Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507
Phone (505) 476-3800 Fax (505) 827-3512
www.osanm.org 1-866-OSA-FRAUD

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances on noncompliance which are required to be reported in accordance with the Uniform guidance and which are described in the accompanying schedule of findings and questioned costs as items FA2018-001 and FA2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The Department's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Department 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 Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Department'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.

Mr. Butch Tongate
New Mexico Environment Department

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

Office of the State Auditor

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

**NEW MEXICO ENVIRONMENT DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

FY17 Finding No.	Prior Year Finding No. (Not Used)	Description	Current Year Status
2012-003	2016-003	Internal control Over Financial Controls and Reporting	Resolved
2015-005	2016-004	Fund Balance Deficit - General Fund (Refer to Note 20)	Resolved
2017-001	N/A	Internal Control Over Cash Disbursements	Resolved

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA

<u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.460	Nonpoint Source
66.458	Clean Water State Revolving Funds
66.802	Superfund
17.503	OSHA Safety and Health State Program

Dollar threshold used to distinguish between type A and type B programs \$791,501

Auditee qualified as low-risk auditee? yes no

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

2018-001 PRIOR PERIOD RESTATEMENT FOR CAPITAL ASSETS (SIGNFICANT DEFICIENCY)

CONDITION:

During our audit, it came to our attention that certain capital assets that had not been recorded in the statewide accounting system (SHARE), presented in the Department’s financial statements, or referenced in the notes to the financial statements. These capital assets are specific to the Corrective Action Fund and are used for remediation efforts. Additionally, they are often moved around to different sites as required. Although these assets had not been reported previously, NMED maintained detailed records of the capital assets. The capital assets were posted as an adjusting journal entry in fiscal year 2018 and required a prior period adjustment in the financial statements to correctly present these items. The net amount of the restatement totals \$541,304.

CRITERIA:

Per MAPs Fin 6.4 *Recording and Reporting Capital Assets*, state agencies must record and report state-owned capital assets in accordance with state law, state rule, and Generally Accepted Accounting Principles. State agencies shall record additions to capital assets at the time acquired and all capital assets of the state, including infrastructure, must be recorded in the accounting records and SHARE.

EFFECT:

Prior to the adjustment, capital assets were understated in the Department’s financial statements and in SHARE.

CAUSE:

The capital assets noted above are not purchased though a regular payment to a vendor. NMED enters into a contract with a private entity, usually for leaking petroleum tank-related remediation. The contracts contain provisions for the purchase of necessary equipment and the contracts also state any equipment purchased is the property of NMED. These contracts are expenditures from the Corrective Action Fund which accommodates contractors purchasing necessary remediation equipment on behalf of the State.

AUDITOR’S RECOMMENDATION:

NMED should work with Department of Finance and Administration staff to determine the appropriate procedures and policies to follow to help ensure all capital assets are recorded correctly and timely. We recommend all affected parties work together once the procedure is developed to help ensure successful implementation.

MANAGEMENT RESPONSE:

Management concurs with this finding. Management self-reported this finding during a meeting with the external auditors. The Department has in fact kept detailed records of the capitals assets purchased using the Corrective Action Fund and has had established processes in place to keep track of the capital asset payments Such processes will continue to be in place and updated as necessary. The assets have been recorded in SHARE.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2018**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA2018-001 FEDERAL PROGRAM REPORTING (OTHER NON-COMPLIANCE)

Federal Program:	OSHA Implementation (CFDA# 17.503)
Federal Agency:	US Department of Labor (OSHA)
Federal Award Number/Year:	SP35015SP8 (2017)
Questioned Costs:	\$0

CONDITION

During our testwork over the reporting requirements for the OSHA grant we noted the report for the quarter ended June 30 was submitted 17 days after the required submission date.

CRITERIA

Per the grant agreement and the instructions for filing the quarterly FFR (SF425) report, quarterly reports are due within 30 days of the end of the reporting period.

EFFECT

Noncompliance with grant of award and federal reporting requirements.

CAUSE

The State of New Mexico's year-end financial information is not available within 30 days of the grant reporting period. At the time the FFR (SF425) report is due only preliminary financial information is available. Filing the June 30 FFR (SF425) report timely may result in inaccurate data being submitted.

RECOMMENDATION

The Department should work with the Department of Finance and Administration and the employees working with the grant to ensure the fiscal year-end adjustments to the grant are made in a timely manner to allow the Department to submit future reports timely.

MANAGEMENT RESPONSE

Management concurs with this audit finding. The Budget Manager and the Grants staff of the Financial Services Bureau of the Administrative Services Division are responsible for ensuring that all federal financial reports ("FFR") are submitted in a timely fashion. The Budget Manager and Grant staff have improved their tracking system to alert staff when FFRs are due which will allow them to request extensions when State financial closing dates do not correspond with Federal reporting dates.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2018**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

FA2018-002 FEDERAL PROGRAM EQUIPMENT PURCHASE APPROVAL (OTHER NON-COMPLIANCE)

Federal Program: Nonpoint Source Implementation Grant (CFDA# 66.460)

Federal Agency: U.S. ENVIRONMENTAL PROTECTION AGENCY

Federal Award Number/Year: FY 18-19 319 Nonpoint Source Implementation Grant

Questioned Costs: \$0

CONDITION

During our testwork over the equipment purchase requirements for the Nonpoint source grant, we noted the Department did not obtain the approval of the EPA Project Officer for two Sondes (Aqua Trolls) purchased on June 26, 2018, at a cost of \$7,452 each. The Department charged the amount to the grant and did not obtain approval from the EPA Project Officer until October 22, 2018.

CRITERIA

Per the grant agreement, the EPA Project Officer must approve the planned purchase of equipment with a unit costs of \$5,000 or more before such costs can be charged to the grant. Therefore, for any items of equipment costing \$5,000 or more, a list of equipment proposed to be purchased along with a justification as to the need for purchasing the equipment must be provided to the EPA Project Officer.

EFFECT

Noncompliance with the grant agreement regarding the purchase of equipment.

CAUSE

The approved budget for the grant included \$9,000 for the purchase of the equipment deemed necessary to complete the project. The budget included the example of a sonde as allowable equipment. The Department may have assumed this was the approval for the purchase and that no additional approval was necessary.

RECOMMENDATION

The Department should review grant requirements and implement the appropriate internal controls to ensure that equipment purchases requiring the approval of the EPA Project Officer are approved prior to the purchase being made.

MANAGEMENT RESPONSE

Management concurs with this audit finding. The project manager for the Non-Point Source grant will be responsible for obtaining approval in writing from the project manager at the Environment Protection Agency (“EPA”) to purchase equipment \$5,000 and above prior to purchasing equipment referenced in the grant.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2018**

SECTION IV – 12-6-5 NMSA 1978 FINDINGS

2018-002: PAYROLL DOCUMENTATION (OTHER NON-COMPLIANCE)

CONDITION

During our testwork of 42 employee personnel files, we noted one employee’s file did not contain IRS Form W-4, *Employee’s Withholding Allowance Certificate*. The federal tax withholding rate on the employee’s pay stub appeared to recalculate at a rate of single with nine withholding allowances. Once notified about the missing form, NMED contacted the affected employee and obtained a signed Form W-4. The completed Form W-4 lists withholding rate of single with four withholding allowances.

CRITERIA

26 USC § 3402 governs income tax collected at the source and states, “In general except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary.”

26 USC § 3402 additionally states, “On or before the date of the commencement of employment with an employer, the employee shall furnish the employer with a signed withholding allowance certificate relating to the withholding allowance claimed by the employee, which shall in no event exceed the amount to which the employee is entitled.” This certificate is commonly known as IRS Form W-4.

The Form W-4 states, “Internal Revenue Code sections 3402(f)(2) and 6109 and their regulations require you to provide this information; your employer uses it to determine your federal income tax withholding. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances...”

EFFECT

NMED may not have complied with 26 USC § 3402. The NM Department of Finance and Administration’s Central Payroll Bureau may have calculated federal tax withholding incorrectly. Additionally, failure to withhold the correct amount may cause the employer to incur a federal tax liability for penalties or additions to the tax applicable.

CAUSE

Undetermined.

RECOMMENDATION

Management should ensure Form W-4’s are maintained for all employees.

MANAGEMENT RESPONSE

Management concurs with this finding. The Human Resource Bureau (“HRB”) has since implemented measures to avoid future discrepancies of this nature. Currently, all new employees of NMED are required to attend a New Hire Orientation within the first pay period following their date of hire. Prior to the effective date of hire, all new employees are sent a blank W-4 via email and are instructed to complete and submit the W-4 to the HRB Employee Relations Specialist on or before the date of orientation. Upon receipt of the completed W-4 from the employee, the Employee Relations Specialist provides a copy of the W-4 to the appropriate HRB Analyst for entry into SHARE. Upon confirmation of entry, the Employee Relations Specialist then places the W-4 into the employee’s personnel file for permanent record-keeping and documents receipt on the HRB New Hire Checklist.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2018**

SECTION IV – 12-6-5 NMSA 1978 FINDINGS (CONTINUED)

2018-003: NON-COMPLIANCE WITH THE GOVERNMENTAL CONDUCT ACT (OTHER NON-COMPLIANCE)

CONDITION

During our testwork to determine compliance with the Governmental Conduct Act, we noted the following:

- NMED does not have supporting documentation that Non-Employee Board members review the code of conduct prior to or at the time of hire.
- NMED’s Code of Conduct had not been filed with the Secretary of State.

CRITERIA

Section 10-16-11 (B) NMSA 1978 states, “Within thirty days after the general codes of conduct are adopted, they shall be given to and reviewed with all executive and legislative branch offices and employees. All new public officers and employees of the executive and legislative branches shall review the employees’ general code of conduct prior to or at the time of being hired.”

Section 10-16-1 (I) NMSA 1978 defines public officers and employees as any elected or appointed official who receives compensation or is eligible for per diem and mileage.

Section 10-16-11 (C) NMSA 1978 states that, “All codes shall be filed with the secretary of state and are open to public inspection.”

EFFECT

NMED may not be in compliance with certain sections of the Governmental Conduct Act.

CAUSE

NMED was unaware of the applicability of the Government Conduct Act in relation to Board members and the requirement to file the code of conduct with the Secretary of State.

RECOMMENDATION

NMED should identify individuals that have not reviewed the code of conduct and require them to review the code of conduct and provide supporting documentation of the review. NMED should also review and amend their policies and procedures as necessary to comply with provisions of the Governmental Conduct Act.

MANAGEMENT RESPONSE

Management concurs with this audit finding. The Hearing Office is responsible for ensuring that all appropriate documents are obtained for all the Board Members. The Administrator to the Boards and Commission has established a checklist of all required documents required to be obtained by any Board members to ensure that we are in compliance with all rules and regulations. Management was not aware of requirement Section 10-16-11 NMSA 1978 requiring internal code of conduct policies to be filed with the Secretary of State. Management has submitted the code of conduct to the Secretary of State’s office per Section 10-16-11 (B) NMSA 1978.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2018**

SECTION IV – 12-6-5 NMSA 1978 FINDINGS (CONTINUED)

2018-004 IMPROPERLY COMPLETED CASH RECEIPTS (FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNFICANT DEFICIENCY)

CONDITION

During our testwork to determine compliance with the Manual of Model Accounting Policies (MAPs), NMED bureau policy and procedures, the Public Money Act and good accounting practices we tested 42 business days of cash receipts from NMED ASD, Technical Bureaus and Field Offices. Our review identified the following:

- Two items, totaling \$190 were witness fees made payable to employees and were deposited into NMED bank accounts.
- Three items, totaling \$750 did not have a payee listed in the “Pay To” line of check.
- One check in the amount of \$200 was made payable to the Department of Health.
- Auditors could not consistently determine compliance with the State statute requirement to deposit funds by the next business day.

CRITERIA

Section 6-5-2 NMSA 1978 states that “State agencies shall comply with the model accounting practices established by the Financial Control Division and the administrative head of each agency shall ensure that the model accounting practices are followed.” Per MAPs Fin 2.3 all state agencies are required to perform the following with regards to cash receipts:

1. Count the cash received and verify the check or money order is completed properly;
2. Document the receipt of money using an appropriate log, including the date, amount, payer name, and the name of the receipting individual;, and
3. Place the receipts in a secure location until deposited.

Per Section 6-5-2(C) NMSA 1978, “State agencies shall implement internal accounting controls designed to prevent accounting errors and violation of state and federal law and rules related to financial matters.”

Per Section 6-10-3 NMSA 1978, “... It is the duty of every official or person in charge of any state agency receiving any money in cash or by check, draft or otherwise for or on behalf of the state or any agency thereof from any source,...to forthwith and before the close of the next succeeding business day after the receipt of the money to deliver or remit it to the state treasurer...”

EFFECT

Incorrectly completed cash receipts could be deposited in a bank account not belonging to NMED. Funds not belonging to NMED could be deposited into an NMED bank account. In addition, an incorrectly completed receipt may be rejected by

NMED’s financial institution. Deposit of funds may be delayed beyond what is permitted by State statute.

CAUSE

Each NMED bureau has its own policies and procedures for processing cash receipts. Some of these policies and procedures are outdated. NMED staff do not always follow their own bureau’s policies and procedures to verify that checks or money orders received are completed properly. Some bureau policies and procedures do not clarify what information should be recorded to ensure compliance with the Public Money Act.

**NEW MEXICO ENVIRONMENT DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2018**

SECTION IV – 12-6-5 NMSA 1978 FINDINGS (CONTINUED)

RECOMMENDATION

NMED should standardize cash receipts policies and procedures to ensure consistent and up to date compliance with MAPs Fin 2.3 and State statutes. Additionally, NMED should implement internal policies and procedures to ensure improperly completed receipts are rejected.

MANAGEMENT RESPONSE

Management concurs with the audit finding. New Mexico Environment Department (“NMED”) has made efforts to consistently apply cash receipt procedures throughout the entire agency. Communication has been sent to all Bureau depositors regarding the process that should be followed when receiving payment with missing information or payments that are made out to other agencies/individuals. Each designated Bureau depositor will be responsible for reviewing all checks prior to making deposits to ensure that all information is accurate and appropriate. If information is missing or inaccurate, the Bureau depositors are required to contact the issuer of the check prior to depositing of the check to inform the issuer of the missing or inaccurate information. The check must be returned to the issuer if the information is inaccurate or missing. The General Ledger Manager, Fiscal Analyst and cash receipt staff from the Administrative Services Division are responsible for overseeing all cash management transactions. They are required to ensure these procedures are being following by the Bureau depositors. If these procedures are not followed, they are required to contact the Bureau depositor once the error has been discovered and provide guidance regarding the process that has been instituted.



State of New Mexico

ENVIRONMENT DEPARTMENT

Administrative Services Division

SUSANA MARTINEZ
Governor

Harold Runnels Building
1190 Saint Francis Drive, PO Box 5469
Santa Fe, NM 87502-5469
Telephone (505) 827-2855 Fax (505) 827-2836
www.env.nm.gov

JOHN A. SANCHEZ
Lieutenant Governor



BUTCH TONGATE
Cabinet Secretary

BRUCE YURDIN
Acting Deputy Secretary

CORRECTIVE ACTION PLAN

December 10, 2018

Environmental Protection Agency

The New Mexico Environment Department (“NMED”) respectfully submits the following corrective action plan for the year ended 2018.

Name and address of independent public accounting firm: Office of State Auditors Audit period: July 1, 2017 – June 30, 2018

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS

2018-001 PRIOR PERIOD RESTATEMENT FOR CAPITAL ASSETS (SIGNIFICANT DEFICIENCY)

MANAGEMENT RESPONSE:

Management concurs with this finding. Management self-reported this finding during a meeting with the external auditors. The Department has in fact kept detailed records of the capitals assets purchased using the Corrective Action Fund and has had established processes in place to keep track of the capital asset payments. Such processes will continue to be in place and updated as necessary. The assets have been recorded in SHARE.

2018-002: PAYROLL DOCUMENTATION (OTHER NON-COMPLIANCE)

MANAGEMENT RESPONSE

Management concurs with this finding. The Human Resource Bureau (“HRB”) has since implemented measures to avoid future discrepancies of this nature. Currently, all new employees of NMED are required to attend a New Hire Orientation within the first pay period following their date of hire. Prior to the effective date of hire, all new employees are sent a blank W-4 via email and are instructed to complete and submit the W-4 to the HRB Employee Relations Specialist on or before the date of orientation. Upon receipt of the completed W-4 from the employee, the Employee Relations Specialist provides a copy of the W-4 to the appropriate HRB Analyst for entry into SHARE. Upon confirmation of entry, the Employee Relations Specialist then places the W-4 into the employee’s personnel file for permanent record-keeping and documents receipt on the HRB New Hire Checklist.

2018-003: NON-COMPLIANCE WITH THE GOVERNMENTAL CONDUCT ACT (OTHER NON-COMPLIANCE)

MANAGEMENT RESPONSE

Management concurs with this audit finding. The Hearing Office is responsible for ensuring that all appropriate documents are obtained for all the Board Members. The Administrator to the Boards and Commission has established a checklist of all required documents required to be obtained by any Board members to ensure that we are in compliance with all rules and regulations. Management was not aware of requirement Section 10-16-11 NMSA 1978 the requires internal code of conduct policies to be filed with the Secretary of State. Management has submitted the code of conduct to the Secretary of State’s office per Section 10-16-11 (B) NMSA 1978.

2018-004 IMPROPERLY COMPLETED CASH RECEIPTS (FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY)

MANAGEMENT RESPONSE

Management concurs with the audit finding. New Mexico Environment Department (“NMED”) has made efforts to consistently apply cash receipt procedures throughout the entire agency. Communication has been sent to all Bureau depositors regarding the process that should be followed when receiving payment with missing information or payments that are made out to other agencies/individuals. Each designated Bureau depositor will be responsible for reviewing all checks prior to making deposits to ensure that all information is accurate and appropriate. If information is missing or inaccurate, the Bureau depositors are required to contact the issuer of the check prior to depositing of the check to inform the issuer of the missing or inaccurate information. The check must be returned to the issuer if the information is inaccurate or missing. The General Ledger Manager, Fiscal Analyst and cash receipt staff from the Administrative Services Division are responsible for overseeing all cash management transactions. They are required to ensure these procedures are being following by the Bureau depositors. If these procedures are not followed, they are required to contact the Bureau depositor once the error has been discovered and provide guidance regarding the process that has been instituted.

FA2018-001 FEDERAL PROGRAM REPORTING (OTHER NON-COMPLIANCE)

MANAGEMENT RESPONSE

Management concurs with this audit finding. The Budget Manager and the Grants staff of the Financial Services Bureau of the Administrative Services Division are responsible for ensuring that all federal financial reports (“FFR”) are submitted in a timely fashion. The Budget Manager and Grant staff have improved their tracking system to alert staff when FFRs are due which will allow them to request extensions when State financial closing dates do not correspond with Federal reporting dates.

FA2018-002 FEDERAL PROGRAM EQUIPMENT PURCHASE APPROVAL (OTHER NON-COMPLIANCE)

MANAGEMENT RESPONSE

Management concurs with this audit finding. The project manager for the Non-Point Source grant will be responsible for obtaining approval in writing from the project manager at the Environment Protection Agency (“EPA”) to purchase equipment \$5,000 and above prior to purchasing equipment referenced in the grant.

**NEW MEXICO ENVIRONMENT DEPARTMENT
EXIT CONFERENCE
JUNE 30, 2018**

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

NEW MEXICO ENVIRONMENT DEPARTMENT

Butch Tongate	Secretary
Marlene Velasquez	Chief Financial Officer

Office of the State Auditor

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

The Office of the State Auditor (OSA) 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.