



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO  
WATER UTILITY AUTHORITY  
Independent Auditors' Report  
And Financial Statements  
For The Year Ended  
June 30, 2012**

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INTRODUCTORY SECTION:</b>	
Table of contents	i
Official roster	ii
<b>FINANCIAL SECTION</b>	
Independent auditors' report	1-2
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-Wide Financial Statements</b>	
Statement of net assets	3
Statement of activities	4
<b>Fund Financial Statements</b>	
Balance sheet – governmental funds	5
Reconciliation of the Balance Sheet to the Statement of Net Assets	6
Statement of revenues, expenditures, and changes in fund balances—governmental funds	7
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statements of activities	8
Statement of revenues, expenditures and changes fund balances—budget and actual non-GAAP budgetary basis - general fund	9
<b>Notes to the financial statements</b>	10-23
<b>SUPPLEMENTAL INFORMATION</b>	
Statement of revenues, expenditures and changes fund balances—budget and actual non-GAAP budgetary basis - debt service fund	24
Schedule of Joint Powers Agreements	25
<b>COMPLIANCE SECTION</b>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with governmental auditing standards	26-27
Schedule of findings and responses	28
<b>OTHER DISCLOSURES</b>	29

**STATE OF NEW MEXICO  
 EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
 OFFICIAL ROSTER  
 As of June 30, 2012**

**Board of Directors**

<b>Board Member</b>	<b>Title</b>	<b>Title/Representing</b>
Ms. Gayla Brumfield	Chairwoman	Clovis, NM
Ms. Sharon King	Vice-Chairwoman	Mayor of Portales, NM
Mr. Caleb Chandler	Secretary	Commissioner of Curry County, NM
Mr. Chris Bryant	Director	Commissioner of City of Clovis, NM
Mr. Juan Garza	Director	Commissioner of City of Clovis, NM
Mr. Tom Howell	Director	City Manager of Portales, NM
Mr. Darrel Bostwick	Director	Commissioner of Village of Melrose, NM

**INDEPENDENT AUDITORS' REPORT**

Governing Board of  
Eastern New Mexico Water Utility Authority  
and  
Mr. Hector Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the State of New Mexico Eastern New Mexico Water Utility Authority (Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Authority's budgetary comparisons for the major debt service fund presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective budgetary comparisons for the major debt service fund for the year ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012 on our consideration of the Authority'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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has omitted the Management Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing

information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budgetary comparisons. The additional schedules listed as "supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Hinkle + Landers, P.C.  
November 27, 2012

**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**As of June 30, 2012**

		Governmental Activities
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$	1,535,053
Receivables:		
Intergovernmental		1,560,982
Total current assets		3,096,035
Noncurrent assets		
Capital assets		8,768,126
Less: accumulated depreciation		-
Total noncurrent assets		8,768,126
Total assets	\$	11,864,161
<b>Liabilities</b>		
Current liabilities		
Current portion of bonds and notes payable	\$	130,759
Total current liabilities		130,759
Noncurrent liabilities		
Bonds and notes payable		2,204,147
Total noncurrent liabilities		2,204,147
Total liabilities		2,334,906
<b>Net Assets</b>		
Invested in capital assets, net of related debt		6,433,220
Unrestricted		3,096,035
Total net assets		9,529,255
Total liabilities and net assets	\$	11,864,161

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>
<b>Primary Government</b>				
Public works	\$ 1,191,153	833,819	7,680,027	7,322,693
Interest on long-term debt	5,361	-	-	(5,361)
<i>Total governmental activities</i>	<u>\$ 1,196,514</u>	<u>833,819</u>	<u>7,680,027</u>	<u>7,317,332</u>
<b>General Revenues:</b>				
Membership dues				\$ 1,099,998
Investment income				381
Miscellaneous income				111,447
Total general revenues and transfers				<u>1,211,826</u>
Change in net assets				8,529,158
Beginning net assets				<u>1,000,097</u>
Ending net assets				<u>\$ 9,529,255</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
As of June 30, 2012**

<b>ASSETS</b>	<b>General Fund</b>	<b>Debt Service</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents	\$ 1,535,053	-	1,535,053
Receivables			
Intergovernmental	<u>1,560,982</u>	<u>-</u>	<u>1,560,982</u>
 Total assets	 <u>\$ 3,096,035</u>	 <u>-</u>	 <u>3,096,035</u>
 <b>LIABILITIES</b>			
 Total liabilities	 \$ -	 -	 -
 <b>FUND BALANCE</b>			
 Unassigned	 <u>3,096,035</u>	 <u>-</u>	 <u>3,096,035</u>
Total fund balance	<u>3,096,035</u>	<u>-</u>	<u>3,096,035</u>
 Total liabilities and fund balance	 <u>\$ 3,096,035</u>	 <u>-</u>	 <u>3,096,035</u>

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
TO STATEMENT OF NET ASSETS  
As of June 30, 2012**

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

Fund balances - total governmental funds	\$	3,096,035
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		8,768,126
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds		
Current bonds and notes payable		(130,759)
Bonds payable		<u>(2,204,147)</u>
Net assets of governmental activities	\$	<u><u>9,529,255</u></u>

**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
<b>Revenues:</b>			
Intergovernmental:			
Federal operating grants	\$ 22,682	-	22,682
State operating grants	1,731,216	-	1,731,216
Investment income	381	-	381
Membership dues	1,099,998	-	1,099,998
Miscellaneous	111,447	-	111,447
Total revenues	<u>2,965,724</u>	<u>-</u>	<u>2,965,724</u>
<b>Expenditures:</b>			
Current:			
Public works	1,191,153	-	1,191,153
Capital outlay	270,000	-	270,000
Debt service:			
Principal	-	130,435	130,435
Interest	-	5,361	5,361
Total expenditures	<u>1,461,153</u>	<u>135,796</u>	<u>1,596,949</u>
Excess (deficiency) of revenues over expenditures	<u>1,504,571</u>	<u>(135,796)</u>	<u>1,368,775</u>
<b>Other financing sources (uses)</b>			
Transfers in/(out)	(135,796)	135,796	-
Proceeds from debt issuance	727,163	-	727,163
Total other financing sources (uses)	<u>591,367</u>	<u>135,796</u>	<u>727,163</u>
Net change in fund balance	2,095,938	-	2,095,938
Beginning fund balance	1,000,097	-	1,000,097
Ending fund balance	<u>\$ 3,096,035</u>	<u>-</u>	<u>3,096,035</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2012**

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

Net change in fund balances - total governmental funds	\$	2,095,938
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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:

Capital expenditures recorded in capital outlay		270,000
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The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Issuance of long-term debt		(727,163)
Principal payments on bonds and notes payable		130,435

Other reclassifications are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting to show the revenue earned from transfers received from other governments:

Transfer of capital assets from other government.		8,498,126
Transfer of debt from other government.		<u>(1,738,178)</u>

Change in net assets of governmental activities	\$	<u><u>8,529,158</u></u>
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**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**GENERAL FUND**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Budgetary Basis) and Actual**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable)  Final to Actual
<i>Revenues:</i>				
<i>Intergovernmental:</i>				
Federal operating grants	\$ 22,682	22,682	-	(22,682)
State operating grants	5,627,392	16,687,856	920,079	(15,767,777)
State capital grants	-	-	-	-
Investment income	-	-	381	381
Membership dues	1,099,998	1,099,998	1,099,998	-
Miscellaneous	108,667	108,667	111,447	2,780
<i>Total revenues</i>	<u>6,858,739</u>	<u>17,919,203</u>	<u>2,131,905</u>	<u>(15,787,298)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Public works	5,815,444	3,245,444	1,191,153	2,054,291
Capital outlay	-	14,784,157	270,000	14,514,157
<i>Total expenditures</i>	<u>5,815,444</u>	<u>18,029,601</u>	<u>1,461,153</u>	<u>16,568,448</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>1,043,295</u>	<u>(110,398)</u>	<u>670,752</u>	<u>(32,355,746)</u>
<i>Other financing sources (uses)</i>				
Transfers out	(99,278)	(135,797)	(135,796)	1
<i>Total other financing sources (uses)</i>	<u>(99,278)</u>	<u>(135,797)</u>	<u>(135,796)</u>	<u>1</u>
<i>Net change in fund balance</i>	944,017	(246,195)	534,956	(32,355,745)
<i>Fund balance - beginning of year</i>	-	-	-	-
<i>Fund balance - end of year</i>	\$ <u>-</u>	\$ <u>-</u>	<u>534,956</u>	<u>(32,355,745)</u>
Net change in fund balance (GAAP)				\$ 534,956
Adjustments to revenue for applicable accruals and deferrals				1,560,982
Adjustments to expenditures for applicable accruals and payments				-
Net change in fund balance (non-GAAP budgetary basis)				\$ <u>2,095,938</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

**A. NATURE OF BUSINESS AND REPORTING ENTITY**

The Eastern New Mexico Water Utility Authority (Authority) was originally established under a joint power's agreement dated October 13, 1987 and the City of Clovis took over as the fiscal agent in fiscal year 2003. House Bill 15, established the Authority as a special district effective on July 1, 2010.

The Authority was created to:

- develop and construct a water delivery system based on a funding formula whereby up to seventy-five percent of the overall capital cost of the system is to be paid for by the federal government, fifteen percent is to be paid for by the state of New Mexico and ten percent is to be paid for by the local governments that have the power to appoint members to the board of the Authority; and,
- deliver water to the local governments with the boundaries of the Authority which will not compete with local governments for rights to deliver water to ultimate end-users.
- seven members of the eastern New Mexico rural water authority, including:

Curry County	City of Texico	Town of Elida
City of Clovis	Town of Melrose	Village of Grady
City of Portales		

The board of the Authority shall consist of seven members, each of whom shall reside within the boundaries of the authority

The Authority is legally separate and fiscally independent of other state organizations, has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB Statement 14.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the election of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibility. Based on the application of these criteria, there are no component units included in the reporting entity.

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basis of Presentation—Fund Accounting**

The accounting system is organized and operated on a fund basis. A “fund” is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

**2. Basis of Accounting/Measurement Focus**

The accounts of the Authority 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Government-Wide Financial Statements**

The Authority’s Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Authority accompanied by a total column. Fiduciary activities of the Authority are not included in these statements.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Authority’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Authority are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated, if applicable.

For its government-wide activities, the Authority has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The Authority has presented all major funds that met those qualifications. In addition, the Authority has presented certain funds, specifically the Debt Service Fund as major funds because the Authority believes the financial position and activities of these funds are significant to the Authority as a whole.

The Authority reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- Debt Service Fund – The Debt Service Fund accounts for the Authority's accumulation of resources for the payment of governmental fund debt principal and interest payments.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The Authority's deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Authority, are property tax, sales tax, intergovernmental revenues and other taxes.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #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 deferred revenue by the recipient.

Expenditures are recorded in the accounting period in which the related fund liability is incurred.

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

**Proprietary Fund Financial Statements**

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Authority currently does not have any funds that meet the criteria to be Proprietary Funds.

**Fiduciary Fund Financial Statements**

Fiduciary fund financial statements include a Statement of Net Position. The Authority’s fiduciary funds are Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting as are the proprietary funds explained above.

The Authority currently does not have any funds that meet the criteria to be Fiduciary Funds.

**3. Net Assets/Fund Balance**

**Governmental Fund Financial Statements.** In accordance with GASBS No. 54, the Authority classifies fund balances in the governmental funds as follows:

**Nonspendable Fund Balance** includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal/contractual requirements. Examples are Prepaid Expenses and Inventory.

**Spendable Fund Balance** includes Restricted, Committed, Assigned, and Unassigned designations:

**Restricted** includes fund balance amounts that are limited for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**Committed** includes fund balance amounts that are obligated to a specific purpose which are internally imposed by the government through formal action (Ordinances and Resolutions) at the highest level of decision making authority (Board of Directors). These



**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2012**

commitments can only be overturned by a like action. Examples are Encumbrances of Construction and Service Contracts, and specific allocation of funds for particular future activities.

**Assigned** includes spendable fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Undesignated excess Fund Balances may be assigned by the Board of Directors for specific purposes through the budget process or agenda items. The assigned designation may be reversed by the Board of Directors at any public meeting.

**Unassigned** includes residual positive fund balances within the General Fund, which have not been classified within the other above mentioned categories. Unassigned Fund Balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the Authority's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the Authority's policy to use committed resources first, then assigned, and then unassigned as needed.

The Authority does not have a formal minimum fund balance requirement.

**Government-wide and Proprietary Fund Financial Statements.** The Authority classifies net position in the government-wide and proprietary fund financial statements as follows:

**Net Investment in Capital Assets** includes the Authority's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted Net Position** includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Authority typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

**Unrestricted Net Position** typically includes unrestricted liquid assets. The Board of Directors has the authority to revisit or alter this designation.

The government-wide statement of net assets reports no restricted net assets. If there were restricted net assets they should be reviewed for consideration of being restricted by enabling legislation. The enabling legislation is legislation that has been determined to be legally enforceable.

Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation,

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

**4. Budgets—Stewardship, Compliance and Accountability**

The Authority's fiscal year is the twelve-month period beginning July 1 and ending June 30. Prior to June 1 the Budget Director submits to management a proposed operating budget of estimated revenues, expenditures, and transfers for the ensuing fiscal year for the General Fund. Next the budget is submitted (1) to the New Mexico Department of Finance and Administration for review and approval; and (2) to the Board of Directors for review and enactment of a resolution legally adopting the budget. Once approved, the Board of Directors may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Additionally, the New Mexico Department of Finance and Administration must approve any amendments to the budget.

The appropriated budgets are prepared on a Non-GAAP cash basis at the detailed line item level. Revenues are budgeted by department and general ledger account. Expenditures are budgeted by department and general ledger account. Expenditures may not exceed appropriations at the fund level. All budget revisions at this level are subject to final review and approval by the Board of Directors. Revisions to the budget can be made throughout the year.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the General Fund.

The accompanying Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2012 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on the individual budgetary statement.

**5. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments.

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

**6. Capital Assets and Depreciation—Government-Wide Financials**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information technology equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the Authority during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable will be determined in future period as needed.

**7. Use of Estimates**

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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**8. Encumbrances**

Encumbrances are not used by this entity.

**9. Membership Dues**

Membership dues consist of annual assessments of member organizations. Membership dues are determined by a formula established by the Authority based on membership level.

**10. Impact of Recently Issued Accounting Principles**

**Recently Issued and Adopted Accounting Pronouncements**

In May 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASBS No. 54 requires the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this Statement are

**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2012**

effective for financial statements for periods beginning after June 15, 2010. The Authority adopted GASBS No. 54 in fiscal year 2011. Required disclosure is provided above.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. GASBS No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for financial statements for periods beginning after June 15, 2010. The Authority adopted GASBS No. 59 in fiscal year 2011. The adoption of GASBS No. 59 does not have any impact on the Authority's financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011. The adoption of GASBS No. 62 does not have any impact on the Authority's financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53*. GASBS No. 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement is effective for periods beginning after June 15, 2011. The adoption of GASBS No. 64 does not have any impact on the Authority's current financial statements.

**Other Recently Issued Accounting Pronouncements**

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASBS No. 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement is effective for periods beginning after December 15, 2011.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

*an amendment of GASB Statements No. 14 and No. 34.* GASBS No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the Authority's financial statements.

**C. CASH AND INVESTMENTS POLICY**

A summary of the Authority's cash and investments as of June 30, 2012 is as follows:

<b>Fund Type</b>	<b>Location</b>	<b>Account Type</b>	<b>Balance Per Depository</b>	<b>Reconciling Items</b>	<b>Balance Per Financial Statements</b>
General	Bank of America	Demand-interest bearing	1,535,053	-	1,535,053
			\$ 1,535,053	-	1,535,053

State statutes authorize the investment of Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Authority properly followed State investment requirements as of June 30, 2012.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Authority. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure the Authority's deposits may not be returned to it. The Authority's deposit policy is to collateralize one half of the uninsured public money in each account. In accordance with Section 6-10-17, NMSA, 1978 Compilation, deposits of public money are required to be collateralized. Pledged collateral is required in amounts in an aggregated equal to one half of the amount of public money in each account. Securities, which are obligations of the United States, State of New Mexico, its agencies, institutions, counties, municipalities or other subdivisions are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of an institution in the

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

As of June 30, 2012, the Authority's bank balance was exposed to custodial risk as follows:

Total amount of deposit in bank	\$	1,535,053
Less FDIC coverage		<u>(250,000)</u>
Total uninsured public funds	\$	<u>1,285,053</u>

**50% Collateral Requirement**

(Section 6-10-17 NMSA 1978) \$ 642,527

<u>Security</u>	<u>Cusip#</u>	<u>Pledge Value</u>
FHLB Guaranteed Loan	470658001	\$ 947,933
FHLB Guaranteed Loan	5298615005	<u>379,493</u>
Total collateral		<u>\$ 1,327,426</u>
Excess Collateralization		<u>\$ (684,899)</u>

<u>Total public funds</u>	<u>Amount</u>
Insured	\$ 250,000
Uninsured and collateralized	1,285,053
Uninsured and uncollateralized	-
Total	<u>\$ 1,535,053</u>

**D. RECEIVABLES**

Receivables as of June 30, 2012 are as follows:

<u>Type</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Grants:			
Federal	\$ 22,682	-	22,682
State	368,637	-	368,637
Other: Loan funds receivable	<u>1,169,663</u>	-	<u>1,169,663</u>
Total	<u>\$ 1,560,982</u>	<u>-</u>	<u>1,560,982</u>

**E. CAPITAL ASSETS**

A summary of capital assets and changes occurring during the year ended June 30, 2012. Land and construction in progress are not subject to depreciation.

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

**Primary Government**

*Governmental Activities*

	Balance June 30, 2011	Additions and Transfers In	Deletions and Transfers Out	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ -	270,000	-	270,000
Construction in progress	-	8,498,126	-	8,498,126
Total capital assets not being depreciated	-	8,768,126	-	8,768,126
Total capital assets net of depreciation	\$ -	8,768,126	-	8,768,126

During the year ended, June 30, 2012, capital assets with a net book value of \$8,498,126 were transferred into the Authority from the City of Clovis. These assets are related to the construction of a new wastewater treatment plant.

**F. LONG-TERM DEBT**

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Balance 06-30-11	Additions	Retirements	Balance 06-30-12	Due Within One Year
<b>Governmental Activities:</b>					
NMFA Notes payable					
2009 ENMRWUA No 84-WTB	\$ 392,583	-	(22,634)	369,949	22,690
2009 ENMRWUA No 56-WTB	108,024	-	(6,228)	101,796	6,243
2010 ENMRWUA - WTB	816,675	-	(44,412)	772,263	44,523
Groan #4	420,896	-	(21,658)	399,238	21,712
Groan #5	-	290,000	(14,159)	275,841	14,194
Groan #6	-	437,163	(21,344)	415,819	21,397
Governmental-activities long-term liabilities	\$ 1,738,178	727,163	(130,435)	2,334,906	130,759

The City of Clovis as fiscal agent for the Authority entered into two separate loan/grant agreements with the NM Finance Authority in September 2008 for the planning, design and engineering of a regional water supply project to provide potable water from Ute Reservoir on the Canadian River to the participating entities of the Authority for municipal and industrial purposes. The terms of the first agreement call for a grant from the NMFA for \$1,125,000 along with a loan totaling \$125,000. The terms of the second agreement call for a grant from the NMFA for \$1,817,120 along with a loan totaling \$454,280. The interest/administrative fee on both notes is 0.25%. Both notes mature on June 1, 2028. The note principal, interest, and administrative fees will be paid for with pledged revenues from the net utility revenues or the Authority's wastewater utility system. As of June 30, 2012, the remaining balance on these notes was \$101,796 and \$369,949, respectively.

In March 2010, the City of Clovis entered into a loan/grant agreement with the NM Finance Authority for activity associated with the Authority. The terms of the agreement call for a grant from the NMFA Water Trust Board for \$3,620,662 along with a loan totaling \$905,166. The interest/administrative fee on the note is 0.25% and the maturity date on the note is June 1, 2029. The note principal, interest, and administrative fees will be paid for with pledged revenues from the net utility revenues or the Authority's wastewater utility system. As of June 30, 2012, the remaining balance on this note was \$772,263.

In December 2010, the City of Clovis entered into a loan/grant agreement with the NM Finance Authority for activity associated with the Authority. The terms of the agreement call for a grant from the

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

NMFA Water Trust Board for \$3,982,500 along with a loan totaling \$442,500. The interest/administrative fee on the note is 0.25% and the maturity date on the note is June 1, 2030. The note principal, interest, and administrative fees will be paid for with pledged revenues from the net utility revenues or the Authority's wastewater utility system. As of June 30, 2012, no amounts had been received related to this agreement, however the Authority has made payments totaling \$43,262 to bring the outstanding amount of the note to \$399,238.

During the year ended June 30, 2012, the Authority entered into a loan/grant agreement with the NM Finance Authority for the construction of a water treatment plant. The terms of the agreement call for a grant from the NMFA Water Trust Board for \$2,610,000 along with a loan totaling \$290,000. The interest/administrative fee on the note is 0.25% and the maturity date on the note is June 1, 2031. The note principal, interest, and administrative fees will be paid for with pledged revenues from the net utility revenues or the Authority's wastewater utility system. As of June 30, 2012, no amounts had been received related to this agreement, however the Authority has made payments totaling \$14,159 to bring the outstanding amount of the note to \$275,841.

During the year ended June 30, 2012, the Authority entered into a loan/grant agreement with the NM Finance Authority for the construction of a water treatment plant. The terms of the agreement call for a grant from the NMFA Water Trust Board for \$3,934,467 along with a loan totaling \$437,163. The interest/administrative fee on the note is 0.25% and the maturity date on the note is June 1, 2031. The note principal, interest, and administrative fees will be paid for with pledged revenues from the net utility revenues or the Authority's wastewater utility system. As of June 30, 2012, no amounts had been received related to this agreement, however the Authority has made payments totaling \$21,344 to bring the outstanding amount of the note to \$415,819.

A receivable in the amount of \$1,169,663 was created for the loan funds "earned" by the Authority that had not yet been transferred from the NMFA.

The annual requirements to amortize the combined NMFA notes outstanding at June 30, 2012, including interest payments are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest &amp; Admin Fees</b>	<b>Total Debt Service</b>
2013	\$ 130,759	5,838	136,597
2013	131,088	5,510	136,598
2014	131,416	5,183	136,599
2015	131,746	4,854	136,600
2016	132,075	4,525	136,600
2017-2021	665,349	17,655	683,004
2022-2026	673,722	9,296	683,018
2027-2031	338,751	1690	340,441

During the year ended June 30, 2012, the City of Clovis transferred debt totaling \$1,738,178 to the Authority. This debt was comprised of the notes listed above.



**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

**G. COMPENSATED ABSENCES**

As of June 30, 2012, the Authority had no employees and no amount compensated absences outstanding at year end.

**H. INTERFUND ACTIVITY**

The Authority recorded interfund transfers to reflect transfers of cash in accordance with the budget. Transfers and payments within the Authority are substantially for the purpose of subsidizing operating functions and funding debt payments. All transfers made during the year were considered routine and were consistent with the general characteristics of the Authority's transfer policy. The composition of interfund transfers during the year ended June 30, 2012 is as follows:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ 135,796

**I. RELATED PARTY TRANSACTIONS**

The by-laws of Authority require the composition of the Board of Directors to represent member governments. As a result, many members of the Board of Directors are employed by, or serve in an elected capacity for, member governments. Due to the nature of the Authority, Board members have a significant interest in the Authority transactions related to its mission and the services it furnishes to their respective governments. Total membership dues paid by the member governments to the Authority for the fiscal year ended June 30, 2012 was \$1,099,998.

**J. LEASE COMMITMENTS**

The Authority had no operating leases as of June 30, 2012.

**K. PERA PENSION PLAN**

The Authority had no employees and is not participating in the public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978).

**L. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN**

The Authority had no employees and is not participating in the New Mexico Retiree Health Care Fund.

**M. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Authority carries commercial insurance. Settled claims have not exceeded this commercial coverage in the past year. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2012, the Authority did not have any probable risk of loss.

**N. CONTINGENCIES**

The Authority participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012**

by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor government. As of June 30, 2012, significant amounts of grant expenditures have not been audited by the grantor agencies. Management believes that any disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the Authority.

**O. COMMITMENTS**

Commitments for engineering and construction projects relating to construction or major repairs in progress aggregated approximately \$8,498,126 as of June 30, 2012. The estimated total cost of the projects is \$426,000,000 and as of the year ended June 30, 2012, the percentage of completion of the existing projects varies. These projects will be paid in future periods as work is performed. Payment will be made with proceeds remaining from past note payables, operating revenues, and future grants to be received.

**STATE OF NEW MEXICO**  
**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**DEBT SERVICE FUND**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (Non-GAAP Budgetary Basis) and Actual**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Budgetary Basis)	Final to Actual
<i>Expenditures:</i>				
Debt service:				
Principal	\$ 94,932	130,435	130,435	-
Interest	4,346	5,362	5,361	1
<i>Total expenditures</i>	99,278	135,797	135,796	1
 <i>Excess (deficiency) of revenues over expenditures</i>	 (99,278)	 (135,797)	 (135,796)	 (1)
 <i>Other financing sources (uses)</i>				
Transfers in	99,278	135,797	135,796	(1)
<i>Total other financing sources (uses)</i>	99,278	135,797	135,796	(1)
 <i>Net change in fund balance</i>	 -	 -	 -	 (2)
 <i>Fund balance - beginning of year</i>	 -	 -	 -	 -
 <i>Fund balance - end of year</i>	 \$ -	 -	 -	 (2)
 Net change in fund balance (GAAP)			\$	-
 Adjustments to revenue for applicable accruals and deferrals				-
 Adjustments to expenditures for applicable accruals and payments				-
 Net change in fund balance (non-GAAP budgetary basis)			\$	-

The accompanying notes are an integral part of these financial statements

**EASTERN NEW MEXICO WATER UTILITY AUTHORITY**  
**SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING**  
**For the Year Ended June 30, 2012**

Joint Powers # Agreement	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Agency	Amount contributed by the Authority during current fiscal year	Audit Responsibility	Fiscal agent and responsible reporting entity	
1	Creation of the Eastern New Mexico Water Utility Authority	Clovis, Portales, Texico, Melrose, Elida, Grady, Curry County, Roosevelt County	The Authority	To Plan, finance, develop and operate the Eastern New Mexico Rural Water System Project.	12/07/05 to Perpetuity	N/A	\$ -	The Authority	The Authority
2	Eastern New Mexico Rural Water System Project	ENMRWA and USDOI Bureau of Reclamation	The Authority	To Plan, finance, develop and operate the Eastern New Mexico Rural Water System Project.	1/20/2011 to 12/31/25	Federal funding 75% = 327,000,000 The Authority- 25%= 99,000,000	\$ -	The Authority	The Authority

**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***

Governing Board of  
Eastern New Mexico Water Utility Authority  
and  
Mr. Hector Balderas, New Mexico State Auditor

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparison of the general fund, and budgetary comparisons presented as supplemental information of Eastern New Mexico Water Utility Authority (Authority), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

November 27, 2012

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

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are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Authority, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

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



Hinkle + Landers, PC  
November 27, 2012

**STATE OF NEW MEXICO  
 EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended June 30, 2012**

**SUMMARY OF FINDINGS AND RESPONSES**

<u>Reference</u>	<u>Findings</u>	<u>Status of Prior Year Findings</u>	<u>Financial Statement Finding</u>	<u>State Auditor Finding</u>
Prior year - None				
Current year - None				

**STATE OF NEW MEXICO  
EASTERN NEW MEXICO WATER UTILITY AUTHORITY  
EXIT CONFERENCE  
For The Year Ended June 30, 2012**

An exit conference was held in a closed session on November 27, 2012, at the Authority's Offices in Clovis, New Mexico. In attendance were the following:

**Eastern New Mexico Water Utility Authority**

Chris Bryant  
Don Clifton

Commissioner of City of Clovis, NM  
Budget Director

**Hinkle + Landers, PC**

Erick Robinson, CPA, CFE

Independent Auditor

**FINANCIAL STATEMENTS**

The financial statements of the Authority as of June 30, 2012, were substantially prepared by Hinkle + Landers, PC, however, the financial statements are the responsibility of management.