



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

STATE OF NEW MEXICO
OFFICE OF THE STATE
ENGINEER/INTERSTATE
STREAM COMMISSION

FINANCIAL STATEMENTS

For The Year Ended June 30, 2012

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
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OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
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**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
OFFICIAL ROSTER
As of June 30, 2012**

OFFICE OF THE STATE ENGINEER

<u>Name</u>	<u>Title</u>
Scott A. Verhines	State Engineer
Richard Rose	Director, Water Resources Allocation Program
Estevan Lopez	Director, Interstate Stream Compact Compliance Program
D.L. Sanders	Director, Litigation & Adjudication Program
Curtis Eckhart	Director, Program Support

INTERSTATE STREAM COMMISSION

Jim Dunlap	Chairman, Farmington
Scott A. Verhines	Secretary, Santa Fe
Phelps Anderson	Member, Roswell
Randall Crowder	Member, Clovis
Buford Harris	Member, Mesilla
Blane Sanchez	Member, Isleta
Mark Sanchez	Member, Albuquerque
Topper Thorpe	Member, Cliff
James Wilcox	Member, Carlsbad

ADMINISTRATION

Monica Trujillo	Chief Financial Officer
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INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas, State Auditor
and
Mr. Jim Dunlap, Chairman
Scott A. Verhines, State Engineer
Office of the State Engineer/Interstate Stream Commission
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons of the general fund and major special revenue funds of the Office of the State Engineer/Interstate Stream Commission (Agency) as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. We also have audited the financial statements of each of the Agency's nonmajor governmental funds, and the budgetary comparisons for the major capital project funds and all nonmajor funds and fiduciary funds presented as supplementary information in the accompanying combining and individual fund 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 Agency'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 with 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.

As discussed in Note 2, the financial statements of the Agency are intended to present the financial position and changes in financial position of only that portion of the governmental activities, major funds and aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above 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 Agency as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and major special revenue funds 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 above present fairly, in all material respects, the respective financial position of each nonmajor governmental, and fiduciary fund of the Agency as of June 30, 2012, and the respective changes in financial position, and the budgetary comparisons for the major capital project fund and the Multi-Year Appropriation Fund, and all nonmajor funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements, the combining and individual fund financial statements, the schedule of changes in assets and liabilities – agency funds, and the budgetary comparisons. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "other supplementary 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.

Hinkle + Landers, P.C.
December 10, 2012

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The New Mexico Office of the State Engineer /Interstate Stream Commission (the Agency) offers the following Management Discussion and Analysis (MD&A) to highlight the agency's current financial position. Further, the discussion and analysis of the agency's financial performance, introduces the basic financial statements and provides an analytical overview of the agency's financial activities for the fiscal year ended June 30, 2012. The report provides an analysis of the agency's overall financial position and results of operations, information on changes in the agency's financial position, and a discussion of significant changes in assets and liabilities. The MD&A is designed to focus on the current year activities, resulting changes and currently known facts, and consequently, should be read in conjunction with the agency's financial statements.

AGENCY OVERVIEW

The Office of the State Engineer is statutorily charged with supervising the state's water resources through the measurement, appropriation, and distribution of all ground and surface water in New Mexico, including streams and rivers that cross state boundaries. The State Engineer, appointed by the Governor and confirmed by the state Senate, serves as the Secretary of the Interstate Stream Commission.

The Interstate Stream Commission Director serves as the deputy state engineer. The Legislature created the Interstate Stream Commission in 1935 and gave it broad powers to investigate, protect, conserve and develop the state's water supplies. Its separate duties include protecting New Mexico's right to water under eight interstate stream compacts and ensuring the state complies with each of those compacts, as well as, developing and promoting regional and statewide water planning.

Although separate under state law, the Interstate Stream Commission staff members function as a program within the Office of the State Engineer. Consequently, "the Agency" will be used to reference both entities as the combined agency within the MD&A.

PROGRAM HIGHLIGHTS

Water Resource Allocation Program

The Water Resources Allocation Program is responsible for processing water rights applications, conducting the scientific research for making those water rights decisions, maintaining water rights records, and enforcing any conditions or restrictions on water use. Water masters in the program measure stream flow, allocate the water within a stream system based on state water law, and regulate and control diversions. Staff also inventory water resources, monitor water use, and cooperate with the U.S. Geologic Survey in monitoring groundwater levels throughout the state. Additional duties are licensing all well drillers, maintaining and updating the rules and regulations of the State Engineer, inspecting non-federal dams, reviewing pre-construction plans for jurisdictional dams, evaluating subdivision water-supply plans submitted by counties, and promoting water conservation.

Interstate Stream Compact Compliance and Water Development Program

Through the State's performance based budgeting initiative under the Accountability in Government Act, the New Mexico Interstate Stream Commission (the Commission) was designated as the Interstate Stream Compact Compliance and Water Development Program of the Office of the State Engineer. The New Mexico Interstate Stream Commission has broad

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OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

powers to investigate, protect, conserve and develop New Mexico's waters, including both interstate and intrastate stream systems.

The Commission's authority under state law includes negotiating with other states to settle interstate stream controversies. New Mexico is signatory to eight interstate stream compacts; specifically: the Colorado River; Upper Colorado River Basin; La Plata River; Animas-La Plata Project; Rio Grande; Costilla Creek; Pecos River; and Canadian River compacts. The Commission is also responsible for compliance with provisions of the U.S. Supreme Court's decisions governing water allocation on the Pecos, Canadian and Gila rivers. To assure compact compliance, staff analyzes, reviews, and implements projects in New Mexico, and evaluates potential water-supply impacts in New Mexico of projects in other states. Staff also analyzes stream flow, reservoir level, snowpack and other data on stream systems in New Mexico and neighboring states.

Litigation and Adjudication Program

The Litigation and Adjudication Program is primarily responsible for overseeing the legal aspects of the administration of the State's water resources. This includes providing legal advice and counsel to the State Engineer and other programs of the agency on various matters regarding the administration of water rights; providing the State of New Mexico with the legal and technical representation needed to prosecute the multiple comprehensive water rights adjudications that are ongoing in state and federal courts; and providing the agency with the legal and technical representation needed in appeals of permitting decisions in administrative hearings and district court proceedings. The Litigation and Adjudication Program employs engineering staff to perform hydrographic surveys of all water rights as required by law, using the most advanced digital imagery techniques, GIS software, and database management tools.

Program Support

Program Support is a separate program within the Office of the State Engineer and provides administrative and management support services to all programs within the Office of the State Engineer. Primary functions performed by Program Support include accounting and financial services, budget administration, human resources administration and information technology management and support. For budgetary purposes, the State Engineer and staff that report directly to him also fall within Program Support. This includes the Native American Water Liaison, Public Information/Public Outreach staff, and the Hearing Unit. The Hearing Unit holds administrative hearings and provides mediation services for the State Engineer on protested and aggrieved water rights applications and on disputed enforcement actions.

DISCUSSION OF FINANCIAL STATEMENTS

The Agency's Basic Financial Statements are presented in four parts: 1) Government-wide Financial Statements, 2) Fund Financial Statements, 3) Budgetary Comparison Statements, and 4) Notes to the Basic Financial Statements.

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

Government-wide Financial Statements

The government-wide financial statements include a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. The statements exclude fiduciary activities whose resources are not available to fund the governments programs. Most of the Agency's basic services are included in the governmental activities. State appropriations and funds from federal sources finance most of these activities.

Fund Financial Statements

Fund financial statements consist of a series of statements that report on the financial position and changes in financial position of the individual funds administered by the agency. Funds are separate accounting entities used to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those funds. The focus of the fund financial statements is on information about the major governmental funds. Fund financial statements also report information about a government's fiduciary funds.

Budgetary Comparisons

GASB 34 requires budgetary comparison schedules for the general fund, and each major special revenue fund that has a legally adopted annual budget, to be presented. The budgetary comparison schedules should present both the original and final appropriated budgets for the reporting period as well as the actual inflows, outflows, and balances, stated on the government's budgetary basis.

As required by the Office of the State Auditor under NMAC 2.2, Statements of Revenues and Expenditures – Budget and Actual, are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

The General Fund is the primary operating fund for the Agency. The fund had favorable expenditures variances resulting from lower than anticipated payroll expenses as a result of a high vacancy rate. In addition, lower than projected expenditures occurred for acequia improvement activities. These activities are primarily funded through inter-fund transfers from the Irrigation Works Construction Fund, administered by the agency, and primarily accounts for most of the unfavorable variance of operating transfer into the General Fund.

Notes to 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.

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**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

ANALYSIS OF AGENCY'S FINANCIAL STATEMENTS

Agency Net Assets

The Statement of Net Assets shows the difference between total assets and total liabilities. The table below provides a summary comparison the Statement of Net Assets for fiscal years ending June 30, 2011 and 2012.

**Table A-1
The Agency's Net Assets**

	<u>FY2012</u>	<u>FY2011</u>	<u>Amount Change</u>
ASSETS			
Current assets	\$ 64,336,872	\$ 40,492,076	\$ 23,844,796
Capital and other non- Current Assets	166,368,055	106,645,881	59,722,174
Total Assets	<u>\$ 230,704,927</u>	<u>\$ 147,137,957</u>	<u>\$ 83,566,970</u>
LIABILITIES			
Current liabilities	\$ 5,161,145	\$ 6,389,627	\$ 13,771,518
Non-Current Liabilities	<u>91,400,000</u>	<u>-</u>	<u>76,400,000</u>
Total Liabilities	<u>96,561,145</u>	<u>6,389,627</u>	<u>90,171,518</u>
NET ASSETS			
Invested in Capital Assets	103,573,542	104,575,400	(1,001,858)
Restricted	123,066,952	36,262,087	86,804,865
Unrestricted	<u>(92,496,712)</u>	<u>(89,157)</u>	<u>(92,407,555)</u>
Total Net Assets	<u>134,143,782</u>	<u>140,748,330</u>	<u>(6,604,548)</u>
Total Liabilities and Net Assets	<u>\$ 230,704,927</u>	<u>\$ 147,137,957</u>	<u>\$ 83,566,970</u>

The Agency had total assets of \$230,704,927 and total liabilities of \$96,561,145 for fiscal year 2012. The Agency's net assets for fiscal year 2012 were \$134,143,782, a decrease of \$6,604,548 relative to fiscal year 2011. This decrease is primarily attributable to the inclusion of the remaining share of the State's participation in three major Indian water rights settlements of \$91,400,000, as well as, the revenue associated with the State's participation in the Arizona Water Rights Settlement, amounting to \$70,072,860. The net effect of these two settlements on

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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

net assets is a reduction of \$21,327,140. Excluding these settlements, the Agency's net assets would have increased by approximately \$14,700,000. These settlements are discussed further within the Notes to Financial Statements.

Changes in Net Assets

The Statement of Activities presents the detail changes in net assets. The table below provides a summary comparison of the Statement of Activities for fiscal years ending June 30, 2011 and 2012.

Comparison of Statement of Activities

	<u>FY2012</u>	<u>FY2011</u>	<u>Amount Change</u>
Expenses			
Agriculture, Energy and Natural Resources	\$ 36,611,433	\$ 39,204,342	\$ (2,592,909)
Program revenues	<u>13,837,232</u>	<u>13,035,437</u>	<u>801,795</u>
Net program expense	<u>(22,774,201)</u>	<u>(26,168,905)</u>	<u>3,394,704</u>
General revenues			
General Fund appropriation	14,598,500	17,503,900	(2,905,400)
Gain (loss) on disposal of asset, net	<u>55,995</u>	<u>-</u>	<u>55,995</u>
Total general revenues	<u>14,654,495</u>	<u>17,503,900</u>	<u>(2,849,405)</u>
Other financing sources (uses) & special items			
Net Transfers	31,442,298	8,743,915	22,698,383
Special items	<u>(29,927,140)</u>	<u>-</u>	<u>(29,927,140)</u>
Total other financing sources (uses) & special items	1,515,158	8,743,915	(7,228,757)
Change in net assets	<u>(6,604,548)</u>	<u>78,910</u>	<u>(6,683,458)</u>
Net assets, beginning	140,748,330	140,669,420	78,910
Net assets, ending	<u>\$ 134,143,782</u>	<u>\$ 140,748,330</u>	<u>\$ (6,604,548)</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

For fiscal year 2012, the Agency's net assets amounted to \$134,143,782, a reduction of \$6,604,548 from fiscal year 2011. Below is a discussion of the primary components of the Agency's Statement of Activities:

Revenue - The Agency's program revenues consist mainly of earnings on investments and other miscellaneous revenue. Program revenue of \$13,837,232 was recognized in fiscal year 2012, a net increase of \$801,795. The general revenues of the agency, consisting primarily of general fund appropriations, and amounted to \$14,654,495. This was a reduction of \$2,849,405 from fiscal year 2011.

Expenses - The Agency's expenses consist of personal services and employee benefits, contractual services, other expenses, and depreciation expenses. Expenditures for fiscal year 2012 were \$2,592,909 below fiscal year 2011. Most of this reduction occurred in personal services and employee benefits due to a high vacancy rate resulting from imposed hiring restrictions in previous years.

Net Transfers - The Agency had net transfers in of \$31,442,298, primarily consisting of severance tax bond proceeds transfer to reimburse for capital outlay expenditures and amounting to \$28,379,374. In addition, the Agency had interagency transfers in of \$4,049,430. Offsetting these transfers in were reversions to the state general fund of \$377,080, and interagency transfers out of \$609,426.

Special Items - Special items include both the revenue received and accrued to the State for its' participation in the Arizona Water Rights Settlement (\$70,072,860) and the expenditures incurred and accrued as part of the State's participation in three major Indian water rights settlements (\$100 M). The net effect of these two settlements is a reduction to net assets of \$29,927,140.

Governmental Funds

The governmental funds of the Agency reported a combined balance of \$62,034,092, which is an increase of \$25,414,135 over fiscal year 2011. A large portion of this increase is attributable to the balance of severance tax bond proceeds appropriated and received for the State's participation in the three major Indian water rights settlements. The unexpended balance of these funds was \$16,400,000 at the end of the fiscal year. In addition, \$8,962,440 remained from federal revenue received from the first ten installment payments for the State's participation in the Arizona Water Settlement. Funds received are deposited in the New Mexico Unit Fund (3081), which is a statutory special revenue fund administered by the Agency.

CAPITAL ASSETS

The Agency's capital assets, net of depreciation, total \$103,573,542. This includes land and water rights valued at \$74,931,473, and infrastructure, comprised of Ute Dam as well as water measurement and metering infrastructure. A total of \$276,177 was added in fiscal year 2012, including construction works-in-progress of \$211,200, furniture and fixtures of \$14,798, and machinery and equipment of \$50,179. The Agency had deletions of \$297,998, primarily resulting from dispositions of machinery and equipment.

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In overseeing the State's water resources and administering the interstate stream compacts, there are several variables which can have a significant effect on the agency's financial position. Drought conditions, which the majority of the State is currently experiencing, can significantly draw on available agency resources. In addition, much of the agency's activities in relation to litigation and adjudication of water rights are intertwined with the judicial system, and consequently, future decisions of the courts can have a significant impact on agency operations and the financial position of the agency.

REQUESTS FOR INFORMATION

The following staff of the New Mexico Office of the State Engineer/Interstate Stream Commission may be contacted in connection with this analysis:

Curtis Eckhart, Director, Program Support
Curtis.eckhart@state.nm.us
(505) 476-0536

Monica Trujillo, Chief Financial Officer
Monica.trujillo1@state.nm.us

Office of the State Engineer/Interstate Stream Commission
P.O. Box 25102
Santa Fe, NM 87504-5102

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
(GOVERNMENT-WIDE)
STATEMENT OF NET ASSETS (DEFICITS)
As of June 30, 2012

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 125
State General Fund Investment Pool	41,333,440
Receivables, net	687,513
Prepaid expenses	428,000
Due from other state agencies	1,618,645
Due from federal government	2,313,728
Investments	17,955,421
Total current assets	64,336,872
Noncurrent assets	
Loans receivable, net of allowance	1,761,653
Settlement due from federal government	61,032,860
Capital assets, net of depreciation	103,573,542
Total assets	\$ 230,704,927
LIABILITIES	
Current liabilities	
Accounts payable	\$ 2,748,069
Accrued salaries and benefits payable	788,631
Due to other state agencies	76,509
Due to state General Fund	451,224
Compensated absences:	
Expected to be paid within one year	1,096,712
Indian Water Rights Settlement:	
Expected to be paid within one year	-
Total current liabilities	5,161,145
Noncurrent liabilities	
Indian Water Rights Settlement, long-term portion	91,400,000
Total liabilities	96,561,145
NET ASSETS (DEFICITS)	
Restricted for:	
Expenditure in future years	19,069,121
Ute Dam operating/construction	598,906
Loans	1,761,653
Investigation and construction of water conservation projects	23,212,259
Improvement and increase of surface flow of Rio Grande River	6,450,200
Water projects in the Gila region	69,995,300
Indian water rights settlement	1,400,000
Pecos River Basin land management	579,513
Unrestricted	(92,496,712)
Invested in capital assets	103,573,542
Total net assets	134,143,782
Total liabilities and net assets	\$ 230,704,927

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
(GOVERNMENT-WIDE)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	<u>Governmental Activities</u>
Expenses	
Agriculture, Energy and Natural Resources	
Current:	
Personal services and employee benefits	\$ 20,060,068
Contractual services	7,545,744
Other	7,823,936
Depreciation expense	<u>1,181,685</u>
Total expenses	<u>36,611,433</u>
Program revenues	
Charges for services	37,817
Operating grants and contributions	13,718,676
Capital grants and contributions	<u>80,739</u>
Total program revenues	<u>13,837,232</u>
Net program expense	<u>(22,774,201)</u>
General revenues	
General Fund appropriation	14,598,500
Gain (loss) on disposal of asset, net	<u>55,995</u>
Total general revenues	<u>14,654,495</u>
Other financing sources (uses) & special items	
Transfers in (out):	
Severance tax bond appropriations	28,379,374
Interagency transfers in	4,049,430
Reversion to the State General Fund	(377,080)
Interagency transfers out	(609,426)
Special items:	
Indian Water Rights Settlement	(100,000,000)
Arizona Water Settlement	<u>70,072,860</u>
Total other financing sources (uses) & special items	1,515,158
Change in net assets	<u>(6,604,548)</u>
Net assets, beginning, as originally reported	140,777,557
Restatement	<u>(29,227)</u>
Net assets, beginning, restated	<u>140,748,330</u>
Net assets, ending	<u>\$ 134,143,782</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2012

Major Funds							
	326	328	2017	3081	892		
	Irrigation	Improvement	Indian	New Mexico	STB Capital		
ASSETS	Construction	of the	Water Rights	Unit	Outlay	Other	Total
	Fund	Rio Grande	Settlement	Fund	Fund	Funds	Governmental
	General	Fund	Fund	Fund	Fund	Fund	Funds
Cash	\$ 125	-	-	-	-	-	125
State General Fund Investment Pool	1,584,004	7,115,162	6,253,024	1,400,000	8,986,641	14,593,763	41,333,440
Receivables, net of allowance	125,419	562,094	-	-	-	-	687,513
Due from other funds	2,879,439	-	-	-	-	481,096	3,369,037
Due from other state agencies	12,988	518,689	120,307	-	1,855	218,349	1,618,645
Due from federal sources	2,232,989	-	-	-	61,032,860	-	63,346,588
Prepaid expense	428,000	-	-	-	-	-	428,000
Investments	-	16,643,134	1,312,287	-	-	-	17,955,421
Loan receivables, net of allowance	-	1,761,653	-	-	-	-	1,761,653
Total assets	\$ 7,262,964	26,600,732	7,685,619	1,400,000	70,021,356	15,293,208	130,500,424
LIABILITIES							
Accounts payable	\$ 2,060,327	-	-	-	19,005	284,707	2,748,070
Accrued payroll	181,969	-	-	-	-	-	181,969
Payroll related liabilities	606,663	-	-	-	-	-	606,663
Due to other funds	-	1,626,820	1,235,419	-	7,052	8,502	3,369,037
Due to other state agencies	41,286	-	-	-	-	-	76,509
Deferred revenue	-	-	-	-	61,032,860	-	61,032,860
Due to State General Fund	349,636	-	-	-	-	-	451,224
Total liabilities	3,239,881	1,626,820	1,235,419	-	61,058,917	293,209	68,466,333
FUND BALANCE							
Nonspendable: Prepaid expense	428,000	-	-	-	-	-	428,000
Nonspendable: Long-term receivables	-	1,761,653	-	-	-	-	1,761,653
Restricted	15,000	-	-	-	-	-	15,000
Committed	3,580,083	23,212,259	6,450,200	1,400,000	8,962,440	15,000,000	59,829,439
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balance	4,023,083	24,973,912	6,450,200	1,400,000	8,962,440	15,000,000	62,034,092
Total liabilities and fund balance	\$ 7,262,964	26,600,732	7,685,619	1,400,000	70,021,356	15,293,208	130,500,424

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets
As of June 30, 2012

Total fund balance - Governmental funds	\$	62,034,092
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.</p>		103,573,542
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Indian Water Rights Settlement		(91,400,000)
Compensated absences payable		(1,096,712)
<p>Some revenue is deferred in the funds but accrued as revenue in the government-wide statements and added to net assets</p>		61,032,860
Net assets of governmental activities	\$	134,143,782

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Major Funds							Total Governmental Funds
	General Fund	326 Irrigation Works Construction Fund	328 Improvement of the Rio Grande Fund	2017 Indian Water Rights Settlement Fund	3081 New Mexico Unit Fund	892 STB Capital Outlay Fund	Other Funds	
Revenues								
Federal funds	\$ 611,742	-	-	-	-	-	951,401	1,563,143
Charges for services	-	-	-	-	-	-	37,817	37,817
Investment earnings (loss)	-	6,623,994	1,497,699	-	9,260	-	-	8,130,953
Interest on loans	-	58,278	-	-	-	-	-	58,278
Miscellaneous revenue	2,830,345	1,432,413	107,154	-	-	-	142,849	4,512,761
Total revenues	<u>3,442,087</u>	<u>8,114,685</u>	<u>1,604,853</u>	<u>-</u>	<u>9,260</u>	<u>-</u>	<u>1,132,067</u>	<u>14,302,952</u>
Expenditures								
Agriculture, Energy and Natural Resources								
Current:								
Personal services and benefits	19,875,656	-	-	-	-	-	-	19,875,656
Contractual services	6,037,915	-	-	-	52,242	836,695	603,225	7,530,077
Other costs	4,600,647	-	-	-	-	124,985	2,313,691	7,039,323
Capital outlay:	121,272	-	-	-	-	-	955,183	1,076,455
Total expenditures	<u>30,635,490</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,242</u>	<u>961,680</u>	<u>3,872,099</u>	<u>35,521,511</u>
Excess (deficiency) of revenue over expenditures	<u>(27,193,403)</u>	<u>8,114,685</u>	<u>1,604,853</u>	<u>-</u>	<u>(42,982)</u>	<u>(961,680)</u>	<u>(2,740,032)</u>	<u>(21,218,559)</u>
Other financing sources (uses)								
Sale of land	-	-	-	-	-	-	151,895	151,895
Transfers in (out):								
General obligation bond proceeds	-	-	-	-	-	-	-	-
Severance tax bond proceeds	-	-	-	10,000,000	-	15,961,680	2,417,694	28,379,374
State General Fund appropriations FY12	14,598,500	-	-	-	-	-	-	14,598,500
Interfund transfers in	11,107,379	33,124	-	-	-	-	58,142	11,198,645
Interagency transfers in	4,049,430	-	-	-	-	-	-	4,049,430
Interfund transfers (out)	(33,124)	(9,574,272)	(1,498,529)	-	(34,578)	-	(58,142)	(11,198,645)
Interagency transfers (out)	(609,426)	-	-	-	-	-	-	(609,426)
Reversions	(41,286)	-	-	-	-	-	(335,793)	(377,079)
Special items:								
Indian Water Rights Settlement	-	-	-	(8,600,000)	-	-	-	(8,600,000)
Arizona Water Settlement	-	-	-	-	9,040,000	-	-	9,040,000
Total other financing sources (uses) & Special items	<u>29,071,473</u>	<u>(9,541,148)</u>	<u>(1,498,529)</u>	<u>1,400,000</u>	<u>9,005,422</u>	<u>15,961,680</u>	<u>2,233,796</u>	<u>46,632,694</u>
Net change in fund balance	<u>1,878,070</u>	<u>(1,426,463)</u>	<u>106,324</u>	<u>1,400,000</u>	<u>8,962,440</u>	<u>15,000,000</u>	<u>(506,236)</u>	<u>25,414,135</u>
Fund balance, beginning, as originally reported	2,145,013	26,429,602	6,343,876	-	-	-	1,730,694	36,649,185
Restatement	-	(29,227)	-	-	-	-	-	(29,227)
Fund balance, beginning, as restated	<u>2,145,013</u>	<u>26,400,375</u>	<u>6,343,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,730,694</u>	<u>36,619,958</u>
Fund balance, ending	<u>\$ 4,023,083</u>	<u>24,973,912</u>	<u>6,450,200</u>	<u>1,400,000</u>	<u>8,962,440</u>	<u>15,000,000</u>	<u>1,224,457</u>	<u>62,034,092</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Net change in fund balances (deficit) - total governmental funds \$ 25,414,135

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay and professional service expenditures (additions) which were capitalized	\$ 276,177	
Depreciation	<u>(1,181,685)</u>	(905,508)

In the Statement of Activities, only the gain on the sale of land is reported, whereas in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of land sold.

Land sales		(151,895)
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Some items reported in the Statement of Activities are not sources or uses of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds.

Change in deferred revenues		60,567,137
Gain on disposal of assets		55,995
Change in compensated absences		(184,412)
Indian Water Rights Settlement expense		<u>(91,400,000)</u>

Change in net assets of governmental activities		\$ <u><u>(6,604,548)</u></u>
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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
GENERAL FUND (214) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ 665,600	968,600	970,098	1,498
Federal funds	355,300	941,240	611,742	(329,498)
Fund balance budgeted	<u>94,113</u>	<u>124,113</u>	<u></u>	<u>(124,113)</u>
Total revenues	<u>1,115,013</u>	<u>2,033,953</u>	<u>1,581,840</u>	<u>(452,113)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	21,663,500	21,579,572	19,875,656	1,703,916
Contractual services	7,740,385	8,590,058	6,037,915	2,552,143
Other	<u>6,238,728</u>	<u>6,991,923</u>	<u>4,721,919</u>	<u>2,270,004</u>
Total expenditures	<u>35,642,613</u>	<u>37,161,553</u>	<u>30,635,490</u>	<u>6,526,063</u>
Excess (deficiency) of revenues over expenditures	<u>(34,527,600)</u>	<u>(35,127,600)</u>	<u>(29,053,650)</u>	<u>6,073,950</u>
Other financing sources (uses)				
General appropriations	14,598,500	14,598,500	14,598,500	-
Operating transfers in	19,929,100	21,138,526	15,156,809	(5,981,717)
Operating transfers out	<u>-</u>	<u>(609,426)</u>	<u>(642,550)</u>	<u>(33,124)</u>
Total other financing sources (uses)	<u>34,527,600</u>	<u>35,127,600</u>	<u>29,112,759</u>	<u>(6,014,841)</u>
Reversion	-	-	(41,286)	(41,286)
Change in fund balance	-	-	17,823	17,823
Fund balance, beginning of year	<u>725,609</u>	<u>725,609</u>	<u>725,609</u>	<u>-</u>
Fund balance, end of year	<u>\$ 725,609</u>	<u>725,609</u>	<u>743,432</u>	<u>17,823</u>

Reconciliation of Budgetary Basis to Fund Financial Statement

Change in fund balance per budgetary basis	\$	17,823
Adjustments:		
Amounts recorded as revenues/OFS in the fund financial statements, but included in another budget (Fund 864)		1,860,247
Amounts recorded as expenses/OFU in the fund financial statements, but included in another budget (Fund 864)		<u>-</u>
Total GAAP basis net change in fund balance - fiscal year ended June 30, 2012	\$	<u>1,878,070</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
IRRIGATION WORKS CONSTRUCTION FUND (326) - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ 120,000	120,000	421,906	301,906
Investment earnings	6,900,000	6,900,000	6,623,994	(276,006)
Land rental	1,550,000	1,550,000	1,010,510	(539,490)
Interest on loans	54,300	54,300	58,278	3,978
Fund balance	<u>5,500,700</u>	<u>5,500,700</u>	<u> </u>	<u>(5,500,700)</u>
Total revenues	<u>14,125,000</u>	<u>14,125,000</u>	<u>8,114,688</u>	<u>(6,010,312)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>14,125,000</u>	<u>14,125,000</u>	<u>8,114,688</u>	<u>(6,010,312)</u>
Other financing sources (uses)				
Operating transfers in	-	-	33,124	33,124
Operating transfers out	<u>(14,125,000)</u>	<u>(14,125,000)</u>	<u>(9,574,272)</u>	<u>4,550,728</u>
Total other financing sources (uses)	<u>(14,125,000)</u>	<u>(14,125,000)</u>	<u>(9,541,148)</u>	<u>4,583,852</u>
Change in fund balance	-	-	(1,426,463)	(1,426,463)
Fund balance, beginning of year, as originally reported	<u>26,429,602</u>	<u>26,429,602</u>	<u>26,429,602</u>	<u>-</u>
Restatement	<u>-</u>	<u>-</u>	<u>(29,227)</u>	<u>(29,227)</u>
Fund balance, beginning of year	<u>26,429,602</u>	<u>26,429,602</u>	<u>26,400,375</u>	<u>(29,227)</u>
Fund balance, end of year	<u>\$ 26,429,602</u>	<u>26,429,602</u>	<u>24,973,912</u>	<u>(1,455,690)</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
IMPROVEMENT TO THE RIO GRANDE FUND (328)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Land rental	\$ 814,300	814,300	107,154	(707,146)
Interest on investments	<u>1,012,400</u>	<u>1,012,400</u>	<u>1,497,699</u>	<u>485,299</u>
Total revenues	<u>1,826,700</u>	<u>1,826,700</u>	<u>1,604,853</u>	<u>(221,847)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,826,700</u>	<u>1,826,700</u>	<u>1,604,853</u>	<u>(221,847)</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(1,826,700)</u>	<u>(1,826,700)</u>	<u>(1,498,529)</u>	<u>328,171</u>
Total other financing sources (uses)	<u>(1,826,700)</u>	<u>(1,826,700)</u>	<u>(1,498,529)</u>	<u>328,171</u>
Change in fund balance	-	-	106,324	106,324
Fund balance, beginning of year	<u>6,343,876</u>	<u>6,343,876</u>	<u>6,343,876</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,343,876</u>	<u>6,343,876</u>	<u>6,450,200</u>	<u>106,324</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
INDIAN WATER RIGHTS SETTLEMENT FUND (2017)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Bond proceeds	\$ 10,000,000	10,000,000	10,000,000	-
Total revenues	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>	<u>-</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	8,600,000	8,600,000	8,600,000	-
Other	<u>1,400,000</u>	<u>1,400,000</u>	<u>-</u>	<u>1,400,000</u>
Total expenditures	<u>10,000,000</u>	<u>10,000,000</u>	<u>8,600,000</u>	<u>1,400,000</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>1,400,000</u>	<u>1,400,000</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	-	-	1,400,000	1,400,000
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>1,400,000</u>	<u>1,400,000</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
NEW MEXICO UNIT FUND (3081)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ 1,660,000	1,660,000	9,040,000	7,380,000
Interest on investments	-	-	9,260	9,260
Total revenues	<u>1,660,000</u>	<u>1,660,000</u>	<u>9,049,260</u>	<u>9,260</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	1,500,000	1,500,000	52,242	1,447,758
Other	-	-	-	-
Total expenditures	<u>1,500,000</u>	<u>1,500,000</u>	<u>52,242</u>	<u>1,447,758</u>
Excess (deficiency) of revenues over expenditures	<u>160,000</u>	<u>160,000</u>	<u>8,997,018</u>	<u>8,837,018</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(160,000)</u>	<u>(160,000)</u>	<u>(34,578)</u>	<u>125,422</u>
Total other financing sources (uses)	<u>(160,000)</u>	<u>(160,000)</u>	<u>(34,578)</u>	<u>125,422</u>
Change in fund balance	-	-	8,962,440	8,962,440
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>8,962,440</u>	<u>8,962,440</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS**

As of June 30, 2012

	<u>Agency Funds</u>
Assets	
Cash and investments	\$ <u>298,335</u>
Total assets	\$ <u><u>298,335</u></u>
Liabilities	
Water rights protest hearing/other deposits	\$ 29,606
Accounts payable	1,179
Deposits held in custody for others	<u>267,550</u>
Total liabilities	\$ <u><u>298,335</u></u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

1. Organization and Function

The formation of the Office of the State Engineer began in 1905, when the Office of the Territorial Irrigation Engineer was established. In 1904, the territorial surface water code was enacted. This legislation superseded the 1905 law and created the Office of the Territorial Engineer, later known as the Office of the State Engineer. Section 72-2-1, NMSA 1978 Compilation, provides that there shall be a "state engineer" who shall be a technically qualified and registered professional engineer under the Engineering and Land Surveying Practice Act (Chapter 61, Article 23, NMSA 1978 Comp.). The State Engineer shall be appointed by the Governor and confirmed by the Senate.

The Office of the State Engineer is composed of four programs: Water Resource Allocation, Interstate Stream Compact Compliance and Water Development, Water Rights Protection and Adjudication, and Program Support. Each program is managed by a director who is responsible directly to the State Engineer.

The New Mexico Interstate Stream Commission, created by Chapter 25, Laws of 1935, is delegated broad general powers for the protection, conservation and development of the waters and stream systems of New Mexico, both interstate and intrastate (Section 72-14-3, NMSA, 1978 Compilation).

The Interstate Stream Commission is composed of nine members, eight of whom are unsalaried and appointed by the governor for a term of six years; the ninth member and secretary of the Commission is the State Engineer. The statutes provide that the eight appointed members shall be representatives of major irrigation districts or sections of the State and that no two members shall be appointed from the same district or section. The chairman is elected by the Commission.

The Office of the State Engineer and the Interstate Stream Commission are separate but companion State entities. The responsibilities of the Office of the State Engineer include water rights administration, water resource investigations, dam safety, rehabilitation of diversion dams and ditches, flood mitigation programs, issuance of water well driller licenses, and hydrographic surveys for water rights adjudications. The Interstate Stream Commission administers interstate stream compacts, funds regional planning projects, oversees interstate litigation, cooperates in the planning of Federal water projects, and provides financial assistance for the construction of irrigation works. Together the two are responsible for the administration, development, conservation and protection of New Mexico's water resources.

2. Summary of Significant Accounting Policies

The Office of the State Engineer/Interstate Stream Commission's (the Agency) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Later, the GASB unanimously approved Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Statement 37 clarified and modified Statements 34 and was implemented simultaneously with Statement 34.

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

Statement 38 modified, established and rescinded certain financial statement disclosure requirements.

As part of GASB Statement No. 34, there was a reporting requirement regarding a government's Infrastructure (roads, bridges, etc.). The Agency owns and operates infrastructure assets, including dams, pipelines, a refugium and metering station installations statewide. The Agency depreciates these assets over the estimated useful life of each asset.

A. Reporting Entity

The Office of the State Engineer is created by statute and is comprised of a State Engineer appointed by the Governor. The Interstate Stream Commission is also created by statute and is comprised of commissioners appointed by the Governor. The appointed commissioners elect a chairman. The State Engineer and the Chairman of the Interstate Stream Commission have administrative responsibility for the Agency.

The Agency is a component unit of the Executive branch of government and these financial statements include all funds and activities over which the Agency's officers have oversight responsibility. The Officers have 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 Agency, for financial reporting purposes, management has considered all potential programs and operations of the Agency. The financial statements and notes to the financial statements include all funds for which the Agency is responsible. These financial statements only present activity related to the Office of the State Engineer/Interstate Stream Commission. The Agency has no component units.

B. Basic Financial Statements – Government-Wide Statements

The basic financial statements include both government-wide (based on the Agency as a whole) and fund financial statements. The reporting model focus is on either the Agency as a whole, or major individual funds (within the fund financial statements). The Agency is a single-program government that engages in only governmental activities and has no component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities.

For its government-wide activities, the Agency 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 Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In the government-wide Statement of Net Assets, the governmental activities are presented using the *economic resources measurement focus* and the *accrual basis of accounting*, which incorporate long-term assets and receivables, as well as, long-term debt and obligations. The Agency's net assets are reported in three parts – invested in capital assets, restricted net assets and unrestricted net assets.

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The government-wide Statement of Activities reports the gross and net cost of the Agency's function. The function is also supported by general government revenues (primarily appropriations from the State General Fund). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues: charges for services, operating grants and capital grants. Program revenues must be directly associated with the function. The Agency includes only one function – Agriculture, Energy and Natural Resources.

The net costs (by function) are normally covered by general revenue (State General Fund appropriations). This government-wide focus is more on the sustainability of the Agency as an entity and the change in the Agency's net assets resulting from the current year's activities. The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in the governmental fund category.

C. Basic Financial Statements – Fund Financial Statements

The governmental fund statements are presented on the *current financial resources measurement focus* and the *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 Agency'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, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the government-wide presentation.

The financial transactions of the Agency are reported on the basis of funds in the fund financial statements. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Agency uses the following fund types:

Governmental Funds

General Fund - The general fund is the general operating fund of the Agency and is used to account for all financial resources except those required to be accounted for in another fund. The general fund is reported by a generic fund type classification within the financial statements known as governmental funds.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue funds are also reported by a generic fund type classification known as governmental funds. All special revenue funds are non-reverting.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and water rights. The capital projects fund is reported by a generic fund type classification known as governmental funds.

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Fiduciary Funds

The Agency's fiduciary funds (agency funds) are presented in the fund financial statements and use the *economic resources measurement focus* and the *accrual basis of accounting*. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Agency, these funds are not incorporated in the government-wide financial statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Funds are classified as major or non-major, with emphasis placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the General fund of the Agency, deemed as major by the Agency due to its importance, or meets the following criteria: total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined. Since the Agency does not have any enterprise funds, only the first criterion is applied.

Major Funds

General Fund – (#214, 864) See previous description for “General Fund.”

Special Revenue Funds:

Irrigation Works Construction Fund – (#326) This fund accounts for program costs to review, evaluate and approve loan agreements and financing contracts with conservancy, irrigation and soil and water conservation districts, community ditches and private ditch and reservoir companies and related functions. The fund was created by Section 72-14-23, NMSA, 1978 Compilation. With the implementation of performance based budgeting, beginning July 1, 2002, current expenditures related to this activity are recorded in the general fund because this is where the Legislature appropriated the funds for expenditure.

Improvement of the Rio Grande Fund – (#328) This fund accounts for funds distributed to various entities for projects relating to improvements of the Rio Grande channel. The fund was created by Section 72-14-4 through 72-14-6, NMSA, 1978 Compilation. With the implementation of performance based budgeting, beginning July 1, 2002, current expenditures related to this activity are recorded in the general fund because this is where the Legislature appropriated the funds for expenditure.

Indian Water Rights Settlement Fund – (#2017) This fund was created by 2007 NM laws, Chap. 42 Section 88. This legislation requires a certification by the Interstate Stream Commission to the Secretary of the Department of Finance and Administration (DFA) attesting to settlements involving water rights related to the Navajo Nation, Taos and Aamodt cases.

New Mexico Unit Fund – (#3081) This fund consists of money distributed to the state pursuant to Paragraphs (2)(D)(i) and (ii) of Section 403(f) of the federal Colorado River Basin Project Act of 1968, as amended by Section 107(a) of the federal Arizona Water Settlements Act, Public Law 108-451, December 10, 2004, and other money made available to the fund pursuant to Section 212 of the federal Arizona Water Settlements

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Act, Public Law 108-451, December 10, 2004, in addition to appropriations, grants, and donations or bequests to the fund. The provisions of federal law establish that the purpose of money in the fund is to pay the costs of the New Mexico unit or other water utilization alternatives to meet water supply demands in the southwest water planning region of New Mexico, as determined by the Interstate Stream Commission in consultation with the southwest New Mexico water study group or its successor, including costs associated with planning and environmental compliance activities and environmental mitigation and restoration. Any unexpended or unencumbered balance remaining in the fund at the end of a fiscal year shall not revert to the general fund. Money in the fund shall not be transferred, other than through an intra-agency transfer, to any other fund.

Capital Project Fund:

Severance Tax Bond (STB) Capital Outlay Fund – (#892) The fund is used to account for Severance Tax Bond funded appropriations for the acquisition or construction of major capital facilities and water rights. This fund is also used to account for Severance Tax Bond funded capital appropriations to local governments that are administered by the agency.

Non-major Funds

Special Revenue Funds:

Ute Dam Operating Fund – (#324) This fund accounts for the operation and maintenance of Ute Dam and reservoir. The fund was created by Section 72-14-36, NMSA, 1978 Compilation. With the implementation of performance based budgeting, beginning July 1, 2002, current expenditures related to this activity are recorded in the general fund because this is where the Legislature appropriated the funds for expenditure.

Ute Dam Construction Fund – (#325) The fund accounts for revenues generated from investment of funds remaining from the original Ute Dam Capital Improvements Fund. The fund was created by Section 72-14-36 to 72-14-37, NMSA, 1978 Compilation.

Pecos River Basin Land Management Fund – (#686) The fund was created pursuant to Laws of 2006, Chapter 77 enacted as 72-1-2.5 NMSA 1978. The fund accounts for revenues and expenses related to the management of land purchases, pursuant to Section 72-1-2.4 NMSA 1978, and management of augmentation well fields in the lower Pecos river basin. Money in the fund does not revert to any other fund at the end of a fiscal year. The fund consists of appropriations, grants, donations or bequests to the fund, all revenues from land purchased pursuant to Section 72-1-2.4 NMSA 1978, and income from investment of the fund or money otherwise accruing to the fund. Money in the fund shall be invested pursuant to Chapter 6, Article 10 NMSA 1978.

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American Recovery and Reinvestment Act (ARRA) Grant – (#890) The fund was created to account for the grant proceeds of the American Recovery and Reinvestment Act (ARRA) and the expenditures there from. The grant is passed through to the Agency from the New Mexico Department of Finance and Administration. The authority for the creation and maintenance of the fund is the requirement of the state of New Mexico. The fund balance will not revert to the state of New Mexico's general fund, as the source of revenues is the federal government.

Capital Project Funds:

Capital Projects Fund – (#267) See previous description for “Capital Projects Fund.” The fund was created by the Laws of 1996, Chapter 11.

General Fund (GF) Capital Outlay Fund – (#931) The fund is used to account for financial resources of State General Fund appropriations used for the acquisition or construction of major capital facilities and water rights. This fund is also used to account for State General Fund appropriations to local governments that are administered by the agency.

The agency has one agency fund and is also the fiduciary for two escrow accounts, as described below:

Irrigation Fees Suspense Fund - (#849) This fund is used to account for the collection and payment of irrigation fees and water rights protest hearing deposits. Irrigation fees are transferred to the State General Fund and water rights protest hearing deposits are held until settlement. The fund is authorized by Section 72-2-6. NMSA, 1978 Compilation.

United States Army Corps of Engineers – The purpose of this escrow account is to enable the Interstate Stream Commission to make available funds for the United States Army Corps of Engineers (COE) for use toward 1113 Acequia Projects. The 1113 Acequia Project (Section 1113 (a) (1) of the Water Resources Development Act of 1986, Public Law 99-662) is for the restoration and preservation of the Acequia systems that have cultural and historic values to the region. The purpose of these projects is to protect and to restore the river diversion structures and associated canal systems in New Mexico that are declared as political subdivisions of the State of New Mexico. Only the COE has authority to withdraw funds from the account. Interest on the account is credited to Irrigation Works Construction Fund (#326).

Ute Dam Outlet Works Pipeline Replacement Project – This escrow account is maintained for the COE for the purposes of modification of the outlet works at the Ute Dam. Modifications include the replacement of the pipeline and the design and construction of repairs to mitigate slab failure and to prevent additional damage to the slab, the foundation and the adjacent spillway. Only the COE has authority to withdraw funds from the account.

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D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Revenues are recognized when earned and expenses are recognized when incurred. Agency funds do not report revenues, expenses or net assets, however, changes in assets and liabilities are recognized on the accrual basis.

Modified Accrual

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available, with "available" meaning revenues are collectible within the current period or within 60 days after year-end). Appropriations are recorded as a receivable at the time the money is made available to the specific fund. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to Governmental Accounting Standards Board No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, 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.

E. Spending Policy

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's policy to use restricted resources first. When expenditures/expenses are incurred for purposes, for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

F. Encumbrances

The General Appropriations Act of 2004, which applied to fiscal year 2005 budgets, established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico. Under the law, encumbrances related to single year appropriations lapse at year end. The portion of an encumbrance representing goods and services received by the last day of the fiscal year is reclassified as accounts payable. Any remaining encumbrances related to single year appropriations may be subject to reversion. The Agency has no encumbrances outstanding at year-end for single year appropriations.

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G. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Financial Statement Amounts

1. Cash and Investments

For the purpose of the Statement of Net Assets, "Cash and investments" includes investments in the State Treasurer General Fund Investment Pool. In accordance with Sections 6-10-10 I through O, NMSA 1978 as amended, the State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government. Please see the State Treasurer's annual audit report for the GASB 40 disclosure of the investments, which may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

The Agency maintains a petty cash fund of \$125 which has benefit to the Agency beyond the fiscal year ended June 30, 2012. Petty cash expenditures are made from this fund and reimbursed as needed.

2. Receivables

Receivables are primarily inclusive of accrued interest receivable on notes receivable, and accounts receivable due for water master billings and other contractual agreements. Pursuant to state statute, the State Engineer may appoint a water master to a district based on the application of the majority of members of the district. The water master is responsible for the apportionment, regulation, control and preservation of waters in his district under the general supervision of the State Engineer. Districts who apply for the services of a water master are required to compensate the State Engineer for the services provided. Accordingly, amounts billed but unpaid at year-end are recorded as accounts receivable.

3. Due from Other State Agencies

This balance is comprised of appropriations to the Agency transferred via other state agencies, investment earnings due to Agency funds, and draw-downs of bond proceeds.

4. Interfund Receivable and Payables – Due To/Due From

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Interfund receivable and payables are presented at net amounts for each fund.

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5. Due from Federal Government

With the exception of the amounts recorded in Fund 3081, the New Mexico Unit, the balance due from federal sources is comprised of reimbursements to the Agency for grant and contract-related expenditures, but not received by year-end.

6. Investments

Funds in the Irrigation Works Construction Fund and the Improvement of the Rio Grande Fund are invested in the New Mexico State Investment Council's Equity (Large Cap Active) and Fixed (Core Bonds) Income Investment. Investments in these external investment pools are carried at market value.

7. Interest and Loans Receivable

State statute authorized the Interstate Stream Commission to make loans to irrigation and similar districts, acequia and community ditch associations, and to municipalities and other political subdivisions of the State, out of any unpledged funds in the Irrigation Works Construction Fund, for engineering, design and construction of a project or rehabilitation of an existing project. Generally, the loans are repayable in annual installments over ten to twenty years with interest at two and one-half percent. Accrued interest receivable comprises interest due from loan balances outstanding during the year, which generally require one annual payment of principal and interest. Interest is calculated on the outstanding principal balance from the last payment date using the simple method.

The Agency has established an allowance for uncollectible notes receivable and related interest receivable in order to present an accurate record of the Agency's financial status. However, as per state guidelines, the Agency is prohibited from forgiveness of debt; an amount owed to the Agency can only be compromised when a good faith dispute exists as to the actual amount of indebtedness or liability. Specifically, Article IV Section 32 of the New Mexico Constitution provides that no obligation or liability of any person, association or corporation held or owned by or owing to the state, or any municipal corporation therein, shall ever be exchanged, transferred, remitted, released, postponed or in any way diminished by the legislature, nor shall any such obligation or liability be extinguished except by the payment thereof into the proper treasury, or by proper proceeding in court. The Agency maintains permanent records and information of all amounts due, including amounts that have been deemed by management as uncollectible. The Agency utilizes all methods at its disposal to recover all balances due, including legal action, when other methods do not result in payment.

8. Capital Assets

Before the 2005 legislative session, items costing more than \$1,000 were capitalized. Effective June 19, 2005, House Bill 1074 amended Section 12-6-10, NMSA 1978, to increase the capitalization threshold to items costing more than \$5,000. Assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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The Agency capitalized its investment in land and water rights and these assets are not depreciated because they are considered inexhaustible. Construction works in progress are not depreciable assets; these assets become depreciable when they are removed from works in progress and added to the appropriate asset category. The Agency capitalized its infrastructure assets and has elected to depreciate infrastructure assets over the assets' estimated useful lives. Depreciation on all exhaustible capital assets is provided on the straight-line basis with no salvage value. The estimated useful life for capital assets is estimated as follows:

	Estimated Useful Life
Infrastructure assets	40 years
Buildings and structures	5 to 40 years
Leasehold improvements	Life of the lease
Furniture and fixtures	10 years
Machinery and equipment	5 to 7 years
Vehicles	5 years

The Agency does not have any debt associated with capitalized assets.

9. Accounts Payable

Goods and services received before year-end but paid after year-end are recorded as accounts payable. A large percentage of accounts payable are for contractual services.

10. Accrued Payroll and Payroll Related Liabilities

Accrued payroll includes amounts owed for work performed as of year-end, but not yet paid. Payroll related liabilities are amounts owed related to personnel services, but not yet paid as of June 30th, and include payroll taxes and amounts due for employee benefit programs.

11. Compensated Absences

Employees accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward. When employees terminate, they are compensated at their current hourly rate for accumulated annual leave as of the date of termination, up to a maximum of 240 hours. Employees accumulate sick leave at the rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours up to 720 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement those employees with over 600 hours accumulated sick leave have the option to convert 400 hours of such leave to cash at one half of their hourly rate.

In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources in accordance with GASB Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The current portion of the compensated absences debt is estimated based on historical trends.

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12. Due to State General Fund

Amounts due to the State General Fund are a result of amounts collected by the Agency on behalf of the State General Fund, and amounts that revert to the State General Fund. Pursuant to Section 6-5-10 NMSA, 1978, all unreserved, undesignated fund balances in reverting funds and accounts as of June 30th are required to be reverted to the State General Fund by September 30th, but the Agency may adjust the reversion within forty-five (45) days of release of the audit report. When the Agency commingles reverting with non-reverting funds, the Agency uses specific identification of the non-reverting funds to calculate the reversion.

13. Equity Classifications

Government-wide Statements

Equity is classified as net assets. Net assets is the difference between assets and liabilities. Net assets *invested in capital assets* represents the historical cost of assets or fair value on date of receipt less accumulated depreciation on those assets. Net assets are reported as *restricted* when there are legal limitations imposed on their use by the Agency or external restrictions by other governments, creditors or grantors. Unrestricted net assets are all other net assets that do not meet the definition of *restricted* or *invested in capital assets*.

Fund Statements

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (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.

14. Revenues and Expenditures

Substantially all governmental fund revenues are accrued and expenditures are recognized when the related fund liability is incurred. Program revenues consist of the following:

Charges for Services —water master services and miscellaneous reimbursements,

Operating Grants and Contributions — Federal grant and contract revenue, investment earnings, interest on loans and land lease income restricted for use in particular programs, and

Capital Grants and Contributions —reimbursements received from the federal government for capital projects.

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I. Budgets and Budgetary Accounting

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements:

1. No later than September 1, the Agency prepares a budget appropriation request and proposed expenditures and the means of financing them.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjusts the appropriation request that becomes the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request also submitting recommendations and adjustments before presentation to the Legislature.
5. Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget.
6. The legal level of budgetary control is at the appropriation program level.
7. Formal budgetary integration is employed as a management control device during the year. Budget adjustments were made in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the fiscal year ended June 30, 2012.
8. Appropriations lapse at the end of the fiscal year except for amounts related to goods and services received by June 30th, or appropriated for expenditure in subsequent years. Except for special General Fund appropriations, the Special Revenue Funds are non-reverting.
9. Budgets for the governmental funds are adopted on a modified accrual basis per the General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N. However, there is an exception to the statute which requires accounts payable accrued at fiscal year-end that do not get paid by statutory deadline to be paid out of the next year's budget (Section 6-10-4 NMSA 1978). The authority for the budget for multi-year appropriations lapses when the appropriation period lapses.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentation in these financial statements is consistent with this budgeting methodology. In accordance with the requirements of Section 2.2.2.10, A(2)(b) of 2.2.2 NMAC Requirements for Contracting and Conducting Audits of Agencies and the allowance made by GASB 34, footnote 53, the major fund budgetary comparison statements have been included as a part of the basic financial statements.

Budgets for the Capital Projects Fund (267) and Multi-Year Appropriations Fund (864) are adopted when the projects are appropriated by the State Legislature and agreements have been established with the recipient. These statements are presented as supplementary information and they reflect project inception-to-date information. Additional budget information is available from the Agency, DFA and/or the State Board of Finance. During fiscal year 2012, the Agency did not anticipate any activity in Fund 324, and therefore, a budget was not established.

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J. Investments in the State Treasurer General Fund Investment Pool

Investments in the State Treasurer General Fund Investment Pool (SGFIP) and bank account balances are reported at carrying amount which reasonably estimates fair value. At year-end, the carrying amounts of State Treasurer accounts and bank accounts were as follows:

<u>Account Name</u>	<u>Account Number/ Type</u>	<u>Balance per Depository</u>	<u>Balance per Financial Statements</u>
General Fund			
State Treasurer	550-214	\$ 164,823	-
State Treasurer	550-864	1,419,026	1,584,004
International Bank - Cimarron	Demand	155	-
Petty Cash	on site	125	125
Total - General Fund		1,584,129	1,584,129
Irrigation Works Construction Fund			
State Treasurer	550-326	7,115,162	7,115,162
Improvement of the Rio Grande Fund			
State Treasurer	550-328	6,253,024	6,253,024
Capital Projects Fund			
State Treasurer	550-267	-	-
Ute Dam Operating Fund			
State Treasurer	550-324	21,856	21,856
Ute Dam Construction Fund			
State Treasurer	550-325	708,424	708,424
Pecos River Basin Land Management Fund			
State Treasurer	550-686	623,872	623,872
STB Capital Outlay Fund			
State Treasurer	550-892	14,593,763	14,593,763
Arizona Settlement Fund			
State Treasurer	550-3081	8,986,641	8,986,641
Indian Water Rights Settlement Fund			
State Treasurer	550-2017	1,400,000	1,400,000
General Fund Capital Outlay			
State Treasurer	550-931	46,694	46,694
Total governmental funds		\$ 41,333,565	41,333,565
<u>Fiduciary Accounts</u>			
Irrigation Fee Suspense Fund			
State Treasurer	550-849	\$ 29,607	29,607
Ute Dam Outlets - Wells Fargo*	Demand	16,493	16,493
US Army Corps of Engineers - Wells Fargo*	Demand	252,236	252,236
Total fiduciary funds		\$ 298,335	298,335

* Interest bearing account

In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Collateral pledged to secure these deposits is monitored by the State Treasurer's Office (STO). The STO issues separate financial statements that disclose the collateral pledged to secure these deposits. The State Treasurer

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has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through P, NMSA 1978 as amended. The State Treasurer with the advice and consent of the state board of finance can invest money held in demand deposits and investments not immediately needed for operation of state government in:

- (a) Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;
- (b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States of other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract;
- (c) Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars;
- (d) Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests:
 - (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.;
 - (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.;
 - or
 - (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service;
- (e) Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or,

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- (f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above, provided that the investment manager has assets under management of at least one billion dollars and the investments made by the state treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

No public funds can be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall be paid out unless there is a contemporaneous transfer of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of uncertificated securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable third-party safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser. For additional GASB 40 disclosure information regarding cash/investments held by the State Treasurer, see the State Treasurer's annual audit report for the GASB 40 disclosure of the investments, which may be obtained by writing to the New Mexico State Treasurer's Office, P.O. Box 608, Santa Fe, NM 87504-0608.

Credit Risk for Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The SGFIP is not rated for credit risk.

Interest Rate Risk for Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have an investment policy that limits investment interest rate risk.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. Cash/investment accounts on deposit with the New Mexico State Treasurer (STO) do not require collateral to be pledged because they are deposits with another governmental entity. Certain cash accounts held by the STO are authorized to earn interest and are deposited by DFA into the New Mexico State Treasurer's Office Interest Bearing Pool. The pool invests in repurchase agreements secured at 102% by U. S. Treasury notes and bills, certificates of deposit, and other interest bearing instruments. Because all monies held by another governmental entity, GASB Statement #3, "Deposits with Financial Institutions Investments (Including Repurchase Agreements), and Reverse Purchase Agreements" is not applicable. Deposits do not have to be classified according to custodial credit risk. Financial statements for the State Treasurer are separately issued.

In general, state statutes require that all deposits held by financial institutions be collateralized at a minimum level of 50 percent. FDIC advisory opinion 94-24 states that public funds are entitled to \$100,000 insurance for time or savings deposits (including bank money market accounts) and \$100,000 for demand deposits deposited within the state in compliance with 12 CFR Subsection 330.15. The US Congress has temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2013. Changes have also been made to other account types. For more information, visit www.fdic.gov. As of June 30, 2012, the Agency's fiduciary accounts were exposed to

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custodial risk as follows:

Fund No.	Account Name	Wells Fargo
1052	Ute Dam Outlets	\$ 16,493
1053	US Army Corps of Engineers	252,236
	Total bank balance	268,729
	Less: FDIC coverage	(250,000)
	Uninsured public funds	\$ <u>18,729</u>

Detail of pledged collateral specific to this Agency is unavailable because the bank comingles pledged collateral for all state funds it holds. However, the Office of the State Treasurer’s Collateral Bureau monitors pledged collateral for all state funds held by state agencies in “authorized” bank accounts, such as those held by the Agency. The Agency’s fiduciary funds are collateralized under the agreement with the State Treasurer’s Office.

The Financial Control Division of the Department of Finance and Administration (DFA) permits the Department to override into a negative cash portion in its Capital Projects Funds, since reimbursement is often received for expenditures from either a federal government agency or DFA itself from severance tax bonds proceeds.

General Fund Investment Pool Not Reconciled

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration’s website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico’s main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Department’s balances at the business unit/fund level is not possible. It is DFA’s responsibility to complete, on a monthly basis, a reconciliation with the balances and accounts kept by the state treasurer per Section 6-5-2.I(J) NMSA 1978

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer’s Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

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The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

To the extent possible the Agency does informally reconcile all deposits and transfers that come into its possession. The cash transactions processed by the Agency flow through the state general fund investment pool. Since SHARE was implemented, the Agency recognized potential concerns related to the statewide cash reconciliation issue and in response, developed internal reconciliation procedures to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Agency. The reconciliation occurs each month and any required adjustments are forwarded to the Financial Control Division at DFA for correction. The monthly reconciliation procedures throughout the Fiscal Year, include, but are not limited to validation of: allotments, deposits, expenditures, all general entries, operating transfers, payroll expenditures/payroll liabilities by fund, and review of outstanding warrants of the Agency. This monthly internal reconciliation of cash receipts and disbursements flowing through the Agency's share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, the Agency reconciles other asset and liability accounts on the Balance Sheet of each fund type. This process also provides additional assurance that transactions affecting the Agency's share in the State General Fund Investment Pool account are accurate.

K. Investments

The Agency invests in two external investment pools. The Large Cap Pool is an equity pool and the Core Bond Pool is a fixed income pool. The pools are uninsured and there is no regulatory oversight on the investment pools. The pools are managed by the New Mexico State Investment Council and the Agency has no control or authority over the securities that each pool acquires. The Constitution and Statutes of the State of New Mexico place various restrictions on investments which may be held by the State. The purpose of these restrictions is to minimize risk within portfolios. Separate audited financial statements of the Core Bonds Pool and the Large Cap Active Pool are available from the New Mexico State Investment Council. These funds are also reported in the New Mexico State Investment Council's regular annual audit. Those reports can be obtained by writing the New Mexico State Investment Council at 41 Plaza le Prensa, Santa Fe, NM 87505.

Investments are held in the equity and fixed income pooled investment funds of the New

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Mexico State Investment Council. The investments represent each fund's proportionate share of the quoted market prices of the securities held in the external investment pools. The pools invest in equity securities, U.S. Treasury securities, Federal Agency notes, industrial and utility bonds and notes, and overnight repurchase agreements. The investments are carried at market value. Following is a summary of the Agency's investments held at June 30, 2012:

	<u>Irrigation Works Construction Fund (326)</u>		<u>Improvement of the Rio Grande Fund (328)</u>	
	<u>Units</u>	<u>Market Value</u>	<u>Units</u>	<u>Market Value</u>
Large Cap Active Pool	3,650	\$ 9,235,386	239	\$ 604,513
Core Bond Pool	2,813	7,407,749	269	707,774
Total investments		\$ 16,643,134		\$ 1,312,287

In accordance with GASB Statement 40, investments must be categorized to give an indication of the level of custodial credit risk assumed by the Agency at year-end. The New Mexico State Investment Council issues separate financial statements that disclose the types of investments, collateral pledged to secure investments and risk categorization of the Large Cap Active Pool and the Core Bond Pool. In addition to the investment earnings on the Large Cap Active Pool and the Core Bond Pool, the Irrigation Works Construction Fund and the Improvement of the Rio Grande Fund are also beneficiaries of the New Mexico Land Grant Permanent Fund and receive distributions of investment earnings from that permanent fund. The Agency also receives interest on overnight investments of cash balances made by the State Treasurer's Office. The following includes the components of investment earnings for fiscal year 2012:

	<u>Irrigation Works Construction Fund (326)</u>	<u>Improvement of the Rio Grande Fund (328)</u>	<u>New Mexico Unit Fund (3081)</u>
Interest and dividends on investments and cash deposits	\$ 579,120	48,879	-
Realized gain (loss) on sale of investments	2,095,349	139,740	-
Increase (decrease) in fair value of investments	(2,313,294)	(148,311)	-
Management fee expense	(20,094)	(1,540)	-
Interest on investments at STO	14,610	8,964	9,260
Distribution of investment earnings from LGPF	6,268,303	1,449,967	-
Investment earnings	\$ 6,623,994	1,497,699	9,260

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains or losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in prior year(s) and the current year.

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L. Prepaid Expenses

The agency is implementing a new Water Rights Business Process Management System, and the prepaid amount of \$428,000 as of June 30, 2012, represents approximately 75% of the total cost of the software licenses and training for this program. This cost will be expensed over a 60 month period, beginning during the fiscal year ended June 30, 2013.

M. Receivables

Receivables include accounts receivable due for contractual agreements and accrued interest due for notes receivable. Management believes that all receivables due for contractual agreements are fully collectible, and therefore, no allowance has been established. However, management has established an allowance for accrued interest on notes receivable, and as of June 30, 2012, the allowance had a balance of \$24,926. This balance increased by \$9,345 during the fiscal year ended June 30, 2012, and no amounts previously written-off were recovered during the year.

N. Loan Receivables

As of June 30, 2012, the Agency had \$1,789,573 in notes due to the Agency from thirty-nine entities. The financial statements reflect an allowance of \$27,920 for uncollectible loans. The Agency did not make any additions or deletions to the allowance accounts during the year ended June 30, 2012.

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O. Settlement Due from Federal Government

Special item - The Arizona Water Settlement

The State of New Mexico entered into the Arizona Water Settlement with the federal government. Under the terms of the agreement, the federal government will pay the State of New Mexico a total of \$66 million in 2004 dollars adjusted for inflation, in 10 annual installments. The inflation adjusted amount is estimated at \$90,400,000. The first installment of \$9.04 million was received by the agency during the fiscal year ended June 30, 2012, and the agency recorded a receivable of \$61,032,860 to account for the remaining amount due. This receivable will be reduced as payments are received from the federal government according to the settlement agreement. In addition, the actual amounts received may require adjustment relative to the receivable recorded, due to indexing.

The amounts expected by year, as of June 30, 2012, assuming imputed interest of approximately 6.17%, are as follows:

<u>Year(s)</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Receivable Balance</u>
				\$ 61,032,860
2013	\$ 9,040,000	5,273,662	3,766,338	55,759,198
2014	9,040,000	5,599,100	3,440,900	50,160,098
2015	9,040,000	5,944,620	3,095,380	44,215,478
2016	9,040,000	6,311,463	2,728,537	37,904,015
2017	9,040,000	6,700,943	2,339,057	31,203,071
2018-2021	<u>36,160,000</u>	<u>31,203,071</u>	<u>4,957,924</u>	-
	<u>\$ 81,360,000</u>	<u>61,032,860</u>	<u>20,328,135</u>	

The amounts received by the agency under this settlement agreement are restricted to costs of a New Mexico Unit that would develop all or some of the water provided to New Mexico in the Arizona Water Settlement Act, for water utilization alternatives that meet a water supply demand, planning, environmental restoration, or mitigation.

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P. Capital Assets

Capital asset activity for the year ended June 30 is as follows:

	2011	Additions	Deletions	Reclass- ifications	2012
Capital assets not depreciated:					
Water rights & land	\$ 74,993,323	-	(61,850)	-	74,931,473
Land held for sale	94,500	-	(34,500)	-	60,000
Construction works-in-progress	1,603,823	211,200	-	(826,278)	988,745
Total capital assets not depreciated	<u>76,691,646</u>	<u>211,200</u>	<u>(96,350)</u>	<u>(826,278)</u>	<u>75,980,218</u>
Capital assets depreciated:					
Infrastructure	37,265,375	-	-	826,278	38,091,653
Buildings and structures	23,099	-	-	-	23,099
Furniture and fixtures	438,885	14,798	-	-	453,683
Machinery and equipment	3,751,345	50,179	(201,648)	-	3,599,876
Leasehold improvement	43,184	-	-	-	43,184
Vehicles	36,463	-	-	-	36,463
Total capital assets being depreciated	<u>41,558,351</u>	<u>64,977</u>	<u>(201,648)</u>	<u>826,278</u>	<u>42,247,958</u>
Total capital assets	<u>118,249,997</u>	<u>276,177</u>	<u>(297,998)</u>	<u>-</u>	<u>118,228,176</u>
Less accumulated depreciation:					
Infrastructure	(9,712,805)	(1,021,405)	-	-	(10,734,210)
Buildings and structures	(19,834)	(242)	-	-	(20,076)
Furniture and fixtures	(420,282)	(11,872)	-	-	(432,154)
Machinery and equipment	(3,462,747)	(141,476)	201,648	-	(3,402,575)
Leasehold improvement	(26,990)	(5,398)	-	-	(32,388)
Vehicles	(31,939)	(1,293)	-	-	(33,232)
Total accumulated depreciation	<u>(13,674,597)</u>	<u>(1,181,685)</u>	<u>201,648</u>	<u>-</u>	<u>(14,654,634)</u>
Net capital assets	<u>\$ 104,575,400</u>	<u>(905,508)</u>	<u>(96,350)</u>	<u>-</u>	<u>103,573,542</u>

The land and water rights asset category is inclusive of all inexhaustible assets owned by the Agency and includes land, permanent easements and water rights. Many of the items included in this category are inclusive of both land and water rights, and because the price is customarily negotiated as a whole, the assets are recorded as one item. In addition, when the cost of a temporary construction easement is negotiated as part of the price of the permanent easement, the cost of the temporary easement is included in land and water rights. Depreciation expense of \$1,181,685 was charged to the agriculture, energy and natural resources function of governmental activities. Deletions during the year include fully depreciated equipment that was idle in prior years.

During recent years the Agency purchased significant land and water rights in the Pecos Valley River Basin to comply with legal obligations. During fiscal year 2010, the Agency began to sell parcels of this land, however, the water rights have been retained by the Agency. Because the land and water rights' purchases were originally negotiated as one purchase, the Agency is estimating the value of the retained water rights as the difference between the original purchase price and the fiscal year 2012 sales price. The Agency anticipates land sales to continue in the near future.

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Current year activity in the construction works-in-progress category includes the following:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reclass- ification</u>	<u>Balance 2012</u>	<u>Estimated Date of Completion / Project Cost</u>
Mimbres Metering Stations	\$ 430,818	-	-	430,818	FY14 / \$800,000
Rio Chama Metering Stations	368,623	189,304	-	557,927	FY12 / \$850,000
Lake Arthur Well Field Upgrade	<u>804,381</u>	<u>21,896</u>	<u>(826,278)</u>	<u>-</u>	
	<u>\$ 1,603,823</u>	<u>211,200</u>	<u>(826,278)</u>	<u>988,745</u>	

Q. Lease Commitments

Buildings and Structures

The Agency leases office space at ten locations throughout the State and occupies office space owned by the New Mexico General Services Department in three other locations. The terms of the leases run from two to ten years. Certain leases contain escalation clauses and renewal options. All leases contain fiscal funding clauses. Lease expenditures under the leases were \$1,179,149 for the year ended June 30, 2012.

Machinery & Equipment

The Agency leases thirty-eight copy machines, various servers and postage machines. The terms of the leases run from two to five years. The leases on the copy machines also provide for maintenance and copy charges.

All leases contain fiscal funding clauses. Lease expenditures under the leases were \$175,501 for the year ended June 30, 2012.

Vehicles

The Agency leases 76 vehicles on an annual basis from the New Mexico General Services Department. Lease expenditures under the leases were \$127,099 for the year ended June 30, 2012.

Future minimum lease payments are:

		<u>Buildings & Structures</u>	<u>Machinery & Equipment</u>	<u>Total</u>
<u>For the Year Ended June 30</u>				
2013	\$	1,064,173	1,064,173	2,128,347
2014		943,898	68,985	1,012,883
2015		918,353	30,410	948,762
2016		930,827	5,223	936,050
2017		673,360	-	673,360
2018-2021		<u>1,166,754</u>	<u>-</u>	<u>1,166,754</u>
Total	\$	<u>5,697,365</u>	<u>1,168,791</u>	<u>6,866,157</u>

All leases may be terminated at any time with sixty days notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Agency decides that termination is necessary to protect the best interests of the State of New Mexico.

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R. Long-Term Liabilities

Compensated Absences

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

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>	<u>Due Within One Year</u>
Compensated absences	\$ 912,300	1,107,511	(923,100)	1,096,712	1,096,712

The current portion of compensated absences payable has been estimated based on historical trends. In prior years, the general fund has been used to liquidate compensated absences payable.

Special Item - Indian Water Rights Settlements

The Indian Water Rights Settlement Fund (§72-1-12 NMSA 1978) requires the State Engineer and the Interstate Stream Commission to report to legislative authorities regarding settlements involving Indian water rights and the State of New Mexico's monetary obligations under these settlements. §72-1-11. The agency's fund #2017, Indian Water Rights Settlement, was created to receive and distribute State of New Mexico funds for the State's share of the costs of these settlements. The agency is also charged with recommending appropriations to the legislature to fund Indian water rights settlements.

New Mexico currently has three Indian water rights settlements pending: the Navajo Nation Settlement in the San Juan River adjudication, the Settlement Agreement with the Pueblos of Nambe, Pojoaque, Tesuque, and San Ildefonso in the Aamodt adjudication, and the Taos Pueblo Settlement in the Rio Pueblo de Taos/Rio Hondo adjudication. In each of these three settlements, a settlement has been executed by the affected tribe or Pueblo, the State of New Mexico, and in some cases the local water right owning parties. The United States, though a participant, has only signed the Navajo Nation Settlement Agreement. Copies of the three settlement agreements and related documents can be found at www.ose.state.nm.us/legal_ose_proposed_settlements.html.

1. Navajo Nation Settlement (Navajo-Gallup Water Supply)

The cost share contribution by the State of New Mexico under this settlement is capped at \$50 million (if fully paid by March 2017, otherwise inflation indexing applies) plus an additional \$10 million for non-Indian ditch improvements. However, the settlement agreement allows the state to receive credits toward its cost share for projects already completed, or other future projects that would be determined by the US Department of Interior, Bureau of Reclamation (BOR), to meet the terms of the agreement. The agency is working with other state agencies to determine respective responsibilities and to coordinate efforts related to funds expended by the state that may meet settlement guidelines.

2. Aamodt Pueblo Settlement

In May 2006, the State of New Mexico, the Pueblos of Nambe, Tesuque, Pojoaque, and San Ildefonso, the County of Santa Fe and the City of Santa Fe executed a Settlement Agreement designed to resolve the claims of the four Pueblos to the use of waters in the Nambe-Pojoaque-Tesuque stream system in north central New Mexico. Federal

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legislation approving the Settlement Agreement was enacted into law in December 2010, and in some respects, provisions of the federal legislation differ from the 2006 Settlement agreement. As a result, the Settlement parties are now tasked with editing the Agreement to conform it to the legislation.

3. Taos Pueblo Settlement

In May 2006, the State of New Mexico, the Taos Pueblo and several Taos-area water right-owning parties executed a Settlement Agreement to resolve to claims of the Taos Pueblo to the use of waters in the Rio Pueblo de Taos and Rio Hondo stream systems in north central New Mexico. Federal legislation approving the Settlement Agreement was enacted into law in December 2010, and in some respects, provisions of the federal legislation differ from the 2006 Settlement agreement. As a result, the Settlement parties are now tasked with editing the Agreement to conform it to the legislation.

The value of infrastructure and mutual benefits projects contemplated in the three pending settlements are estimated at more than \$1.7 billion as of June 30, 2012. The State of New Mexico will not own the infrastructure once completed; the infrastructure and projects will be owned by tribal and local governments. Costs are expected to be borne as noted:

Federal government	\$	1,512,844,000
Local governments		93,200,000
State of New Mexico		130,040,000
Total estimated costs	\$	1,736,084,000

The agency estimates that the State of New Mexico will receive a credit towards its cost share of about \$30 million, resulting in the agency expending about \$100 million during the next six to 10 years to meet obligations under these three settlements.

During the fiscal year ended June 30, 2012, the agency recorded a total of \$25 million in state funding which was restricted for the Indian Water Rights Settlement agreements, with \$16.4 million unexpended as of June 30, 2012.

The agency has recorded, as a special item, the estimated settlement expense in the government-wide financial statements, of \$91.4 million, as of June 30, 2012. Detail of activity for this long-term liability for the year ended June 30, 2012 is as follows:

	2011	Additions	Deletions	2012	Due Within One Year
Indian Water					
Rights Settlement	\$ -	100,000,000	(8,600,000)	91,400,000	-

Actual amounts recorded may require future adjustments that could increase or decrease the liability due to the on-going nature of the settlement negotiations and the credit provisions in the settlements. Due to the fact that negotiations related to the timing of the payments are still continuing among the affected parties, the agency is unable to estimate the amount due for these settlements during the next five, as well as, subsequent years. Likewise, interest expense related to these settlements cannot be imputed at this time.

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S. Interfund Receivables/Payables and Interfund Transfers

Interfund transfers for fiscal year 2012 are as follows:

Transfers to:	General Fund	Transfers from:				Total
		267	3081	326	328	
General Fund	\$ -	-	34,578	9,574,272	1,498,529	11,107,379
326	33,124					33,124
931	-	58,142	-	-	-	58,142
	\$ <u>33,124</u>	<u>58,142</u>	<u>34,578</u>	<u>9,574,272</u>	<u>1,498,529</u>	<u>11,198,645</u>

The purposes for the transfers are as follows:

Amount	Fund		Purpose
	From:	To:	
\$ 58,142	267	931	Transfer to fund where expenditures budgeted
33,124	General Fund	326	Reimbursement of expenditures
34,578	3081	General Fund	Transfer to fund where expenditures budgeted
9,574,272	326	General Fund	Transfer to fund where expenditures budgeted
1,498,529	328	General Fund	Transfer to fund where expenditures budgeted
\$ <u>11,108,645</u>			

Interfund receivables/payables are as follows:

Due to	Due from					Total
	267	3081	326	328	892	
General Fund	\$ 10,149	7,052	1,626,820	1,235,419	-	2,879,439
267	-	-	-	-	8,502	8,502
892	481,096	-	-	-	-	481,096
	\$ <u>491,245</u>	<u>7,052</u>	<u>1,626,820</u>	<u>1,235,419</u>	<u>8,502</u>	<u>3,369,037</u>

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T. Interagency Transfers

All interagency transfers made during the year were considered routine and were consistent with the general characteristics of the Agency's transfers. Interagency transfers as of June 30, 2012 are:

Transfers in or out of the Agency's General Fund are as follows:

	<u>Out</u>	<u>In</u>	<u>Reason</u>
Office of the Attorney General #170	\$ -	600,000	Rio Grande Water Litigation MOU
Dept of Finance and Administration #009	-	220,000	Laws 2012, 2nd Session, Chapt 19, Sect 7, item 14
Dept of Game & Fish GPF #198	-	182,300	Ute Lake & Eagle Nest Lake MOU
NM Finance Authority	-	3,047,130	Water Projects Fund
State General Fund Appropriation #853	-	14,598,500	General appropriation
State General Fund Appropriation #853	41,286		Reversion of unexpended FY12 appropriations
Administrative Office of the Courts #512	609,426	-	Water Projects Fund 72.4A.9 NMSA 1978
	<u>\$ 650,712</u>	<u>18,647,930</u>	

Transfers in or out of the Agency (Fund #267) are as follows:

	<u>Out</u>	<u>In</u>	
State General Fund Appropriation #853	\$ 300,570	-	Reversions of unexpended appropriations
Severance Tax Bonds - proceeds	-	2,417,694	Drawdowns
	<u>\$ 300,570</u>	<u>2,417,694</u>	

Transfers in or out of the Agency (Fund #325) are as follows:

	<u>Out</u>	<u>In</u>	
Energy, Minerals & Natural Resources Dept	\$ 35,223	-	Reversion per Ute Lake MOU

Transfers in or out of the Agency (Fund #890) are as follows:

	<u>Out</u>	<u>In</u>	
NM Off.Recovery and Reinvestment #890	\$ -	870,662	Reimbursement of grant expenditures

Transfers in or out of the Agency (Fund #892) are as follows:

	<u>Out</u>	<u>In</u>	
Severance Tax Bonds - proceeds	\$ -	15,961,680	Drawdowns

Transfers in or out of the Agency (Fund #2017) are as follows:

	<u>Out</u>	<u>In</u>	
Severance Tax Bonds - proceeds	\$ -	10,000,000	Drawdowns

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U. Due to/from Other Agencies

The following amounts are due to/from other agencies:

<u>Amount Due From Other Agencies</u>		<u>Due From</u>	
<u>SHARE Fund No.</u>	<u>Amount</u>	<u>SHARE Fund No.</u>	<u>Amount</u>
GF #21400	\$ <u>12,988</u>	ENV #06400	\$ <u>12,988</u>
CPF #26700	<u>746,457</u>	DFA #19200	717,946
		DFA #22900	11,793
		DFA #60900	16,718
			<u>746,457</u>
NMUF #30810	<u>1,855</u>	STO #80100	<u>1,855</u>
IRGIF #32600	<u>518,689</u>	STO #80100	1,707
		SIC #60100	516,982
			<u>518,689</u>
IRGIF #32800	<u>120,307</u>	STO #80100	1,288
		SIC #60100	119,020
			<u>120,307</u>
STB #89200	<u>218,349</u>	DFA #19200	200,944
		DFA #22900	17,406
			<u>218,349</u>
Total	\$ <u>1,618,645</u>		\$ <u>1,618,645</u>

<u>Amount Due To Other Agencies</u>		<u>Due From</u>	
<u>SHARE Fund No.</u>	<u>Amount</u>	<u>SHARE Fund No.</u>	<u>Amount</u>
EMNRD #20010	\$ <u>35,223</u>	UDCF #32500	\$ <u>35,223</u>
Game & Fish #198	<u>41,286</u>	GF #21400	<u>41,286</u>
Total	\$ <u>76,509</u>		\$ <u>76,509</u>

All interagency balances represent routine transactions and are consistent with the general characteristics of the Agency's transactions.

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V. Due to State General Fund

Detail of amounts due to the State General Fund include:

	General Fund	Capital Projects Fund (267)	Total
Due for reversions	\$ -	100,980	100,980
Stale dated warrants	-	608	608
Amounts collected on behalf of the State of New Mexico	<u>349,636</u>	<u>-</u>	<u>349,636</u>
Total	<u>\$ 349,636</u>	<u>101,588</u>	<u>451,224</u>

W. Fund Balance and Net Assets

The agency's fund balances represent: 1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2012, follows:

	<u>Restricted</u>	<u>Committed</u>
General Fund (214, 864):		
Emergency Drought Water Agreement	\$ -	2,660,568
Adjudications	-	424,610
Strategic Water Reserve	-	474,905
Water Rights Administration		20,000
Private grant	15,000	-
	<u>15,000</u>	<u>3,580,083</u>
Irrigation Works Construction Fund (326):		
Water conservation	-	23,212,259
Improvement of the Rio Grande Fund (328):		
Water conservation	-	6,450,200
Indian Water Rights Settlement Fund (2017):		
Public works - Indian Water Rights Settlement	-	1,400,000
New Mexico Unit Fund (3081):		
Public works - Arizona Water Settlement	-	8,962,440
STB Capital Outlay Fund (892):		
Public works - Indian Water Rights Settlement	-	15,000,000
Other funds:		
Interstate water compliance	-	579,513
Dam construction and operations	-	598,906
Public works capital outlay	-	46,038
	<u>\$ -</u>	<u>1,224,457</u>

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The government-wide statement of net assets reports \$36,291,314 of restricted net assets, all of which is considered restricted by enabling legislation. The enabling legislation 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, 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.

Unexpended balances of appropriations that do not lapse at June 30, 2012 are presented as net assets reserved for subsequent year expenditure. Restricted net assets at June 30, 2012 are a result of the following:

Fund 686: Restricted for Pecos River Basin Land Management by statute (72-1-2-5, NMSA 1978)	\$ <u>579,513</u>
Funds 324/325: Restricted for Ute Dam Operating/Construction by statute (72-14-36 and 37, NMSA 1978)	<u>598,906</u>
Fund 326: Restricted for loans-restricted by third parties and statute (72-14-29, NMSA 1978)	<u>1,761,653</u>
Fund 326: Restricted for investigation and construction of water conservation projects-restricted by statute (72-14-23, NMSA 1978)	<u>23,212,259</u>
Fund 328: Restricted for improvement and increase of surface flow of Rio Grande River-restricted by statute (72-14-4 to 72-14-6, NMSA 1978)	<u>6,450,200</u>
Fund 3081: Restricted for AZ Water Settlement - Gila Region	<u>69,995,299</u>
Fund 2017: Restricted for Indian Water Rights Settlement	<u>1,400,000</u>
<u>Restricted for subsequent year expenditure:</u>	
Fund 892: Restricted for Capital Outlay/ Indian Water Rights	15,000,000
Fund 931: Restricted for Capital Outlay	46,038
Water Rights Admin. (Laws of 2012, Ch. 19, Sect. 7, Item 14)	448,000
Emergency Drought Water Agreement (Laws of 2011, Sec 4)	2,660,568
Adjudications (72-4A-9, NMSA 1978)	121
Adjudications (72-4A-9, NMSA 1978, Laws of 2009)	424,489
Strategic Water Reserve (72-14-3.3, NMSA 1978)	474,905
Private grant	<u>15,000</u>
Total restricted net assets	\$ <u><u>123,066,952</u></u>

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X. Restatement

A restatement was recorded in the governmental and government-wide financial statements for the year ended June 30, 2012. Details of the restatement are provided below:

Fund	Amount	Reason
326	\$ (29,227)	To remove invalid receivable

3. Other Notes

A. PERA Pension Plan

Plan Description

Substantially all of the Agency'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, 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. 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

Plan members are required to contribute 8.92% of their gross salary. The Agency is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Agency are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the Legislature. The Agency's contributions to PERA for the years ending June 30, 2012, 2011 and 2010 were \$1,961,218, \$2,400,230 and \$2,618,933, respectively, and equal to the amount of the required contributions for each year.

B. Deferred Compensation Plan

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all State employees and those local government and school district employees whose employers have elected participation in the plan which permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Amendments to the laws governing Section 457 deferred compensation plans substantially became effective January 1, 1997, with provision for existing plans to make the required changes by January 1, 1999. PERA has approved plan amendments and has amended contracts with providers to comply with this amendment. Accordingly, plan assets are held in trust for the exclusive benefit of the plan participants and their beneficiaries. The assets will not be diverted to any other purpose. There are employees who are making contributions to a Deferred Compensation Plan. Neither the Agency nor

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the State of New Mexico makes any contributions to the Deferred Compensation Plan. All contributions withheld from participants' salaries by the Agency have been paid to the New Mexico Public Employees' Retirement Association, which administers the plan.

C. Post-Employment Benefits

Plan Description

The Agency contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment 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 post-employment 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.

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 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. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for

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employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature. The Agency's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$268,273, \$263,301 and \$223,832, respectively, which equal the required contributions for each year.

D. Risk Management

State statute requires the Risk Management Division of the General Services Department to be responsible for the acquisition and administration of all insurance purchased by the State. Since 1977 various statutes have been passed which allows Risk Management Division to insure, self-insure or use a combination of both in all areas of coverage. The Agency participates in the risk pool managed by Risk Management Division and annually pays insurance premiums.

The primary areas of coverage are: liability and civil rights protection for claims made by others against the State, coverage to protect the State's property and assets, and fringe benefit coverages for the States' employees. The primary area where the Agency may retain the risk of loss is liability for breach of contract. The Agency has not experienced any losses for breach of contract.

E. Contingencies

Grant Programs

The Agency receives funding pursuant to various grant programs. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant that, if not met, could require the Agency to refund amounts received to the granting agency. The Agency carefully monitors grant requirements and believes it has met all such conditions.

Litigation

The Agency is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the proceedings cannot be predicted, the Agency believes that any potential liability would be covered through insurance, supplemental appropriation or would be immaterial to the financial statements.

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F. Land Grant Permanent Fund

The Ferguson Act of 1898 and the Enabling Act of 1910 granted certain lands held by the federal government to the territory of New Mexico. Under the terms of these grants, it was stipulated that such lands, totaling 13.4 million acres, were to be held in trust for the benefit of the public schools and other specific public institutions. Royalties and principal from land sales are transferred by the New Mexico State Land Office to the New Mexico State Investment Council that adds these amounts to the corpus of the Land Grant Permanent Fund. The income received on the Land Grant Permanent Fund is distributed by the New Mexico State Investment Council to the beneficiaries.

Gains and losses on investment transactions are credited or charged to the corpus and do not directly impact distributions to beneficiaries. On November 5, 1996, New Mexico voters approved Constitutional Amendment No. 1 which, among other things, provides that annual distributions from the Land Grant Permanent Fund shall be one hundred two percent (102%) of the amount distributed in the immediately preceding fiscal year until the annual distributions equal four and seven-tenths percent (4.70%) of the average of the year-end market values of the fund for the immediately preceding five years. Thereafter, the amount of the annual distributions shall be four and seven-tenths percent (4.70%) of the average of the year-end market values of the fund for the immediately preceding five years. The amendment became effective when it was passed by the U.S. Congress and signed by the President of the United States in August 1997.

Two Land Grant Permanent Fund beneficiaries are the Improvement of the Rio Grande Fund and the Water Reservoirs Income Fund. In 1955, the Legislature created the Irrigation Works Construction Fund to consist of the income creditable to the Water Reservoirs Income Fund and other monies that might be appropriated by the Legislature.

G. Related Parties

1. Inter & Intra-state Commissions

State Engineer, Scott Verhines, is the Secretary of the Interstate Stream Commission, and also serves as the New Mexico Commissioner to the Rio Grande River Compact and the Upper Colorado River Compact. (See Note A for information related to the administration of the Office of the State Engineer and the Interstate Stream Commission.)

2. Water Trust Board

The Water Trust Board is a 15-member Board that recommends to the Legislature projects to fund via the Water Project Fund, a fund created by the Legislature in 2001 and administered by the New Mexico Finance Authority. Scott Verhines, State Engineer, serves as Chair of the Water Trust Board. During fiscal year 2012, the Agency received direct transfers of \$3,074,130 from the Water Trust Board for water rights adjudications as provided for in 72-4A-9 NMSA 1978.

3. Costilla Creek Compact

Several employees of the Office of the State Engineer/Interstate Stream Commission have responsibilities for the administration of the Costilla Creek Compact (the

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Compact). The Compact, approved by the Legislature by the Laws of 1945, Chapter 51, and amended on September 30, 1945, provides for the equitable division and apportionment of the use of the waters of Costilla Creek. The Compact is comprised of the officials in both New Mexico and Colorado who are charged with the duty of administering public water supplies. The salaries and expenses of the members of the Compact are paid by each respective state. The Compact may employ assistance as deemed reasonably necessary, and to the extent that it is not borne by the United States, the costs are assumed equally by the two states. A summary of the Compact's financial status for fiscal year 2012 includes:

Condensed	
Balance Sheet (unaudited)	
6/30/12	
ASSETS	
Cash	\$ 58,317
Total assets	58,317
LIABILITIES	
Accounts payable	35,732
Total liabilities	35,732
FUND BALANCE	22,585
TOTAL LIABILITIES	
AND FUND BALANCE	\$ 58,317

Condensed	
Statement of Activities (unaudited)	
For the Year Ended June 30, 2012	
REVENUES	
Assessments	\$ 101,001
Interest	31
Total revenues	101,032
EXPENSES	
Change in fund balance	103,952
	(2,920)
Beginning fund balance	25,506
Ending fund balance	\$ 22,586

During fiscal year 2012, Scott Verhines served as a Commissioner of the Compact, Monica Trujillo, CFO of the Agency, served as the Treasurer of the Compact, and Wilfred Lucero, Agency employee, served as Water Master. In fiscal year 2012, the Compact reimbursed the Agency for \$103,952 in salary plus benefit costs for personal services costs and contractual expenses; no other financial transactions occurred between the Agency and the Compact.

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COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
As of June 30, 2012

	Special Revenue Funds	Capital Projects Funds	Total Other Funds
ASSETS:			
Cash	-	-	-
State General Fund Investment Pool	1,354,152	46,694	1,400,846
Prepaid expenses	-	-	-
Receivables, net of allowance	-	-	-
Due from other funds	-	8,502	8,502
Due from other state agencies	-	746,457	746,457
Due from federal sources	-	80,739	80,739
Escrow deposits	-	-	-
Investments	-	-	-
Loan receivables, net of allowance	-	-	-
	<u>\$ 1,354,152</u>	<u>882,392</u>	<u>2,236,544</u>
LIABILITIES:			
Accounts payable	140,510	243,521	384,031
Accrued payroll	-	-	-
Payroll related liabilities	-	-	-
Due to other funds	-	491,245	491,245
Due to other state agencies	35,223	-	35,223
Deferred revenue	-	-	-
Due to State General Fund	-	101,588	101,588
Total liabilities	<u>175,733</u>	<u>836,354</u>	<u>1,012,087</u>
FUND BALANCE:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	1,178,419	46,038	1,224,457
Assigned	-	-	-
Unassigned	-	-	-
Total fund balance	<u>1,178,419</u>	<u>46,038</u>	<u>1,224,457</u>
Total liabilities and fund balance	<u>\$ 1,354,152</u>	<u>882,392</u>	<u>2,236,544</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Special Revenue Funds	Capital Projects Funds	Total Other Funds
Revenues:			
Federal funds	\$ 870,662	80,739	951,401
Charges for services	37,817	-	37,817
Investment earnings (loss)	-	-	-
Miscellaneous revenue	140,185	2,664	142,849
Total revenues	1,048,664	83,403	1,132,067
Expenditures:			
Agriculture, Energy and Natural Resources			
Current:			
Personal services and benefits	-	-	-
Contractual services	191,063	412,162	603,225
Other costs	267,879	2,045,812	2,313,691
Debt service:	-	-	-
Principal	-	-	-
Interest	-	-	-
Capital outlay:	743,983	211,200	955,183
Total expenditures	1,202,925	2,669,174	3,872,099
Excess (deficiency) of revenue over expenditures	(154,261)	(2,585,771)	(2,740,032)
Other financing sources (uses)			
Sale of land	151,895	-	151,895
Transfers in (out):			
General obligation bond proceeds	-	-	-
Severance tax bond proceeds	-	2,417,694	2,417,694
State General Fund appropriations FY12	-	-	-
Interfund transfers in	-	58,142	58,142
Interagency transfers in	-	-	-
Interfund transfers (out)	-	(58,142)	(58,142)
Interagency transfers (out)	-	-	-
Reversions	(35,223)	(300,570)	(335,793)
Total other financing sources (uses):	116,672	2,117,124	2,233,796
Net change in fund balance	(37,589)	(468,647)	(506,236)
Fund balance, beginning	1,216,008	514,686	1,730,694
Fund balance, ending	\$ 1,178,419	46,039	1,224,457

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
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COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
As of June 30, 2012

	324	325	686		Total
	Ute Dam	Ute Dam	Pecos	890	Special
	Operating	Construction	River Basin	ARRA	Revenue
	Fund	Fund	Land Mgmt	Grant	Funds
	Fund	Fund	Fund		Funds
ASSETS:					
Cash	-	-	-	-	-
State General Fund Investment Pool	21,856	708,424	623,872	-	1,354,152
Prepaid expenses	-	-	-	-	-
Receivables, net of allowance	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other state agencies	-	-	-	-	-
Due from federal sources	-	-	-	-	-
Escrow deposits	-	-	-	-	-
Investments	-	-	-	-	-
Loan receivables, net of allowance	-	-	-	-	-
	<u>21,856</u>	<u>708,424</u>	<u>623,872</u>	<u>-</u>	<u>1,354,152</u>
	<u>\$ 21,856</u>	<u>\$ 708,424</u>	<u>\$ 623,872</u>	<u>-</u>	<u>\$ 1,354,152</u>
LIABILITIES:					
Accounts payable	-	96,151	44,359	-	140,510
Accrued payroll	-	-	-	-	-
Payroll related liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other state agencies	-	35,223	-	-	35,223
Deferred revenue	-	-	-	-	-
Due to State General Fund	-	-	-	-	-
Total liabilities	<u>-</u>	<u>131,374</u>	<u>44,359</u>	<u>-</u>	<u>175,733</u>
FUND BALANCE:					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	21,856	577,050	579,513	-	1,178,419
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balance	<u>21,856</u>	<u>577,050</u>	<u>579,513</u>	<u>-</u>	<u>1,178,419</u>
Total liabilities and fund balance	<u>\$ 21,856</u>	<u>\$ 708,424</u>	<u>\$ 623,872</u>	<u>-</u>	<u>\$ 1,354,152</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECT FUNDS
As of June 30, 2012

	267	931	Total
	Capital	GF Capital	Capital
	Projects	Outlay	Projects
	Fund	Fund	Funds
ASSETS:			
Cash	-	-	-
State General Fund Investment Pool	-	46,694	46,694
Prepaid expenses	-	-	-
Receivables, net of allowance	-	-	-
Due from other funds	8,502	-	8,502
Due from other state agencies	746,457	-	746,457
Due from federal sources	80,739	-	80,739
Escrow deposits	-	-	-
Investments	-	-	-
Loan receivables, net of allowance	-	-	-
	\$ 835,698	46,694	882,392
LIABILITIES:			
Accounts payable	242,865	656	243,521
Accrued payroll	-	-	-
Payroll related liabilities	-	-	-
Due to other funds	491,245	-	491,245
Due to other state agencies	-	-	-
Deferred revenue	-	-	-
Due to State General Fund	101,588	-	101,588
Total liabilities	835,698	656	836,354
FUND BALANCE:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	46,038	46,038
Assigned	-	-	-
Unassigned	-	-	-
Total fund balance	-	46,038	46,038
Total liabilities and fund balance	\$ 835,698	46,694	882,392

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2012

	324	325	686	890	Total
	Ute Dam	Ute Dam	Pecos	ARRA	Special
	Operating	Construction	River Basin	Grant	Revenue
	Fund	Fund	Land Mgmt		Funds
	Fund	Fund	Fund		Funds
Revenues:					
Federal funds	\$ -	-	-	870,662	870,662
Charges for services	-	37,817	-	-	37,817
Investment earnings (loss)	-	-	-	-	-
Miscellaneous revenue	-	140,125	60	-	140,185
Total revenues	-	177,942	60	870,662	1,048,664
Expenditures:					
Agriculture, Energy and Natural Resources					
Current:					
Personal services and benefits	-	-	-	-	-
Contractual services	-	96,151	85,149	9,763	191,063
Other costs	-	-	152,265	115,614	267,879
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:	-	-	17,191	726,792	743,983
Total expenditures	-	96,151	254,605	852,169	1,202,925
Excess (deficiency) of revenue over expenditures	-	81,791	(254,545)	18,493	(154,261)
Other financing sources (uses)					
Sale of land	-	-	151,895	-	151,895
Transfers in (out):					
General obligation bond proceeds	-	-	-	-	-
Severance tax bond proceeds	-	-	-	-	-
State General Fund appropriations FY12	-	-	-	-	-
Interfund transfers in	-	-	-	-	-
Interagency transfers in	-	-	-	-	-
Interfund transfers (out)	-	-	-	-	-
Interagency transfers (out)	-	-	-	-	-
Reversions	-	(35,223)	-	-	(35,223)
Total other financing sources (uses):	-	(35,223)	151,895	-	116,672
Net change in fund balance	-	46,568	(102,650)	18,493	(37,589)
Fund balance, beginning	21,856	530,482	682,163	(18,493)	1,216,008
Fund balance, ending	\$ 21,856	577,050	579,513	-	1,178,419

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR CAPITAL PROJECT FUNDS
For the Year Ended June 30, 2012

	267 Capital Projects Fund	931 GF Capital Outlay Fund	Total Capital Projects Funds
Revenues:			
Federal funds	\$ 80,739	-	80,739
Charges for services	-	-	-
Investment earnings (loss)	-	-	-
Miscellaneous revenue	2,664	-	2,664
Total revenues	83,403	-	83,403
Expenditures:			
Agriculture, Energy and Natural Resources			
Current:			
Personal services and benefits	-	-	-
Contractual services	412,162	-	412,162
Other costs	2,002,674	43,138	2,045,812
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay:	211,200	-	211,200
Total expenditures	2,626,036	43,138	2,669,174
Excess (deficiency) of revenue over expenditures	(2,542,633)	(43,138)	(2,585,771)
Other financing sources (uses)			
Sale of land	-	-	-
Transfers in (out):			
General obligation bond proceeds	-	-	-
Severance tax bond proceeds	2,417,694	-	2,417,694
State General Fund appropriations FY12	-	-	-
Interfund transfers in	-	58,142	58,142
Interagency transfers in	-	-	-
Interfund transfers out	(58,142)	-	(58,142)
Interagency transfers (out)	-	-	-
Reversions	(300,570)	-	(300,570)
Total other financing sources (uses):	2,058,982	58,142	2,117,124
Net change in fund balance	(483,651)	15,003	(468,648)
Fund balance, beginning	483,651	31,035	514,686
Fund balance, ending	\$ -	46,038	46,038

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
UTE DAM CONSTRUCTION FUND (325)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Charges for services	\$ -	-	37,817	37,817
Miscellaneous	-	-	140,125	140,125
Fund balance	-	120,000		(120,000)
	<u>-</u>	<u>120,000</u>	<u>177,942</u>	<u>57,942</u>
Total revenues	<u>-</u>	<u>120,000</u>	<u>177,942</u>	<u>57,942</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	120,000	96,151	23,849
Other	-	-	-	-
	<u>-</u>	<u>120,000</u>	<u>96,151</u>	<u>23,849</u>
Total expenditures	<u>-</u>	<u>120,000</u>	<u>96,151</u>	<u>23,849</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>81,791</u>	<u>81,791</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reversion	-	-	(35,223)	(35,223)
Change in fund balance	-	-	46,568	46,568
Fund balance, beginning of year	<u>530,482</u>	<u>530,482</u>	<u>530,482</u>	<u>-</u>
Fund balance, end of year	<u>\$ 530,482</u>	<u>530,482</u>	<u>577,050</u>	<u>46,568</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
PECOS RIVER BASIN LAND MANAGEMENT FUND (686)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Sale of land	\$ -	-	151,895	151,895
Miscellaneous revenue	-	-	60	60
Fund balance	-	626,019	-	(626,019)
Total revenues	-	626,019	151,955	(474,064)
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	226,019	85,149	140,870
Other	-	400,000	169,456	230,544
Total expenditures	-	626,019	254,605	371,414
Excess (deficiency) of revenues over expenditures	-	-	(102,650)	(102,650)
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Change in fund balance	-	-	(102,650)	(102,650)
Fund balance, beginning of year	682,163	682,163	682,163	-
Fund balance, end of year	\$ 682,163	682,163	579,513	(102,650)

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
ARRA GRANT (890)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Federal funds	\$ 789,046	889,046	870,662	(18,384)
Total revenues	<u>789,046</u>	<u>889,046</u>	<u>870,662</u>	<u>(18,384)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	70,293	26,057	9,764	16,293
Other	<u>718,753</u>	<u>862,989</u>	<u>842,405</u>	<u>20,584</u>
Total expenditures	<u>789,046</u>	<u>889,046</u>	<u>852,169</u>	<u>36,877</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>18,493</u>	<u>18,493</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	-	-	18,493	18,493
Fund balance, beginning of year	<u>(18,493)</u>	<u>(18,493)</u>	<u>(18,493)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (18,493)</u>	<u>(18,493)</u>	<u>-</u>	<u>18,493</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SEVERANCE TAX BOND CAPITAL OUTLAY (892)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Bond proceeds	\$ 20,582,652	20,582,652	15,961,680	(4,620,972)
Total revenues	<u>20,582,652</u>	<u>20,582,652</u>	<u>15,961,680</u>	<u>(4,620,972)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	8,542,309	9,500,466	836,695	8,663,771
Other	<u>12,040,343</u>	<u>11,082,186</u>	<u>124,985</u>	<u>10,957,201</u>
Total expenditures	<u>20,582,652</u>	<u>20,582,652</u>	<u>961,680</u>	<u>19,620,972</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>15,000,000</u>	<u>15,000,000</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	-	-	15,000,000	15,000,000
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>15,000,000</u>	<u>15,000,000</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
CAPITAL PROJECTS FUND (267)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Bond proceeds	4,812,540	4,812,540	2,417,694	(2,394,846)
Miscellaneous revenues	-	-	2,664	2,664
Federal funds	-	456,872	80,739	(376,133)
Fund balance	143,749	143,749		(143,749)
Total revenues	<u>4,956,289</u>	<u>5,413,161</u>	<u>2,501,097</u>	<u>(2,912,064)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	1,328,180	3,044,171	412,162	2,632,009
Other	2,378,109	2,368,990	2,213,874	155,116
Total expenditures	<u>3,706,289</u>	<u>5,413,161</u>	<u>2,626,036</u>	<u>2,787,125</u>
Excess (deficiency) of revenues over expenditures	<u>1,250,000</u>	<u>-</u>	<u>(124,939)</u>	<u>(124,939)</u>
Other financing sources (uses)				
Bond proceeds				-
Operating transfers in	-	-	-	-
Operating transfers out	(1,250,000)	-	(58,142)	(58,142)
Total other financing sources (uses)	<u>(1,250,000)</u>	<u>-</u>	<u>(58,142)</u>	<u>(58,142)</u>
Reversion	-	-	(300,570)	(300,570)
Change in fund balance	-	-	(483,651)	(483,651)
Fund balance, beginning of year	483,651	483,651	483,651	-
Fund balance, end of year	<u>\$ 483,651</u>	<u>483,651</u>	<u>-</u>	<u>(483,651)</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
GENERAL FUND CAPITAL OUTLAY (931)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous	\$ -	-	-	-
Fund balance	31,035	-	-	-
Total revenues	<u>31,035</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	31,035	89,177	43,138	46,039
Total expenditures	<u>31,035</u>	<u>89,177</u>	<u>43,138</u>	<u>46,039</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(89,177)</u>	<u>(43,138)</u>	<u>46,039</u>
Other financing sources (uses)				
Operating transfers in	-	58,142	58,142	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>58,142</u>	<u>58,142</u>	<u>-</u>
Change in fund balance	-	(31,035)	15,004	46,039
Fund balance, beginning of year	<u>31,035</u>	<u>31,035</u>	<u>31,035</u>	<u>-</u>
Fund balance, end of year	<u>\$ 31,035</u>	<u>-</u>	<u>46,039</u>	<u>46,039</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MULTI-YEAR APPROPRIATIONS FUND (864)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	-	1,860,247	1,860,247
Fund balance	-	783,700		(783,700)
Total revenues	-	783,700	1,860,247	1,076,547
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	783,700	-	783,700
Total expenditures	-	783,700	-	783,700
Excess (deficiency) of revenues over expenditures	-	-	1,860,247	1,860,247
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Reversion	-	-	-	-
Change in fund balance	-	-	1,860,247	1,860,247
Fund balance, beginning of year	1,419,403	1,419,403	1,419,403	-
Fund balance, end of year	\$ 1,419,403	1,419,403	3,279,650	1,860,247

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
For the Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Irrigation Fees Suspense Fund (849)				
Assets				
Cash and investments	\$ 29,607	-	-	29,607
Total assets	<u>\$ 29,607</u>	<u>-</u>	<u>-</u>	<u>29,607</u>
Liabilities				
Water rights protest hearing/other deposits	\$ 29,607	-	-	29,607
Total liabilities	<u>\$ 29,607</u>	<u>-</u>	<u>-</u>	<u>29,607</u>
United States Army Corps of Engineers (1053)				
Assets				
Cash and investments	\$ 252,034	202	-	252,236
Total assets	<u>\$ 252,034</u>	<u>202</u>	<u>-</u>	<u>252,236</u>
Liabilities				
Deposits held in custody for others	\$ 251,057	-	-	251,057
Accounts payable	977	202	-	1,179
Total liabilities	<u>\$ 252,034</u>	<u>202</u>	<u>-</u>	<u>252,236</u>
Ute Dam Outlet Works Pipeline Replacement Project (1052)				
Assets				
Cash and investments	\$ 16,480	13	-	16,493
Total assets	<u>\$ 16,480</u>	<u>13</u>	<u>-</u>	<u>16,493</u>
Liabilities				
Deposits held in custody for others	\$ 16,480	13	-	16,493
Total liabilities	<u>\$ 16,480</u>	<u>13</u>	<u>-</u>	<u>16,493</u>
Total				
Assets				
Cash and investments	\$ 298,121	215	-	298,335
Total assets	<u>\$ 298,121</u>	<u>215</u>	<u>-</u>	<u>298,335</u>
Liabilities				
Water rights protest hearing/other deposits	\$ 29,607	-	-	29,606
Accounts payable	977	202	-	1,179
Deposits held in custody for others	267,537	13	-	267,550
Total liabilities	<u>\$ 298,121</u>	<u>215</u>	<u>-</u>	<u>298,335</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEERING/INTERSTATE STREAM COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through/ Grantor No.</u>	<u>Grant Award Expended</u>
DIRECT PROGRAMS			
U.S. Department of Interior			
Bureau of Reclamation			
Regional Water Conservation Guidebook	15.530	R10AP40044	\$ 16,090
New Mexico Water Use Census	15.530	R11AP40038	22,469
New Mexico Fix-A-Leak	15.530	R11AP40043	7,901
			<u>46,460</u>
Water Conservation - Designing a Water Leasing Market for Mimbres River	15.507	R09AP32018	152,325
Operations & Maintenance - Los Lunas Silvery Minnow Refugium	* 15.517	08-FG-40-2803	316,810
Rio Rancho Open Space Habitat Restoration	15.537	R11AP40092	80,739
Total U.S. Department of Interior			<u>596,334</u>
U.S. Department of Homeland Security			
Federal Emergency Management Agency			
Dam Safety & Security	97.041	2010-RC-50-0013	40,370
Dam Safety & Security	97.041	2011-GR-00002	817
Total U.S. Department of Homeland Security			<u>41,187</u>
INDIRECT PROGRAMS			
U.S. Department of Education			
Passed through the New Mexico Office of Recovery and Reinvestment			
State Fiscal Stabilization Government Services Fund			
ARRA - Northern NM Acequia Projects	* 84.397	S397A090032	852,169
Total U.S. Department of Education			<u>852,169</u>
Total federal awards expended			<u>\$ 1,489,690</u>

Reconciliation of federal awards expended to federal revenues:

Federal revenues per governmental fund financial statements	\$ 1,563,143
Federal expenditures per SEFA	<u>1,489,690</u>
Difference is due to federal grants expended in FY11, but deferred as revenue in the fund financial statements due to availability	<u><u>73,453</u></u>

Subrecipients: As a part of the ARRA - Northern NM Acequia Projects program, the Office of the State Engineer/Interstate Stream Commission passed through grant funds to the following:

<u>Subrecipient</u>	<u>CFDA Number</u>	<u>Amount</u>
Carlsbad Irrigation District	84.397	\$ 99,949

Notes:

This schedule of federal awards is presented on the GAAP basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. There were no federal awards expended in the form of non-cash assistance, insurance in effect or loans or loan guarantees outstanding at year-end.

*Major Program

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF PERFORMANCE DATA
For the Year Ended June 30, 2012**

<u>Type</u>	<u>Measure</u>	<u>FY12 Target Level</u>	<u>FY12 Year-End Result</u>	<u>Met Target</u>
Water Resource & Allocation Program:				
Output	Average number of unprotested new and pending applications processed per month	65	46.2	No
Explanatory	Number of unprotested and unaggrieved water right applications backlogged	650	991	No
Outcome	Number of transactions abstracted annually into the water administration technical engineering resource system database	25,000	24,678	No
Outcome	Number of dams inspected per year to establish baseline	110	64	No
Interstate Stream Compact Compliance and Water Development Program:				
Outcome	Cumulative state-line delivery credit per the Pecos River Compact and amended decree at the end of calendar year, in acre-feet	0	100,100	Yes
Outcome	Rio Grande River Compact accumulated delivery credit or deficit at end of calendar year, in acre-feet	0	80,000	Yes
Litigation and Adjudication Program:				
Outcome	Number of offers to defendants in adjudications	1,000	640	No
Outcome	Percent of all water rights that have judicial determinations	50%	53%	Yes

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
Schedule of Joint Powers Agreements, Memorandum of Understanding and Other Governmental Agreements
For the Year Ended June 30, 2012

Agreements	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Agency	Amount contributed current fiscal year	Audit Responsibility	Fiscal agent & responsible reporting entity
1 Investments of certain ISC monies	Interstate Stream Commission/ NM State Investment Council	Interstate Stream Commission	Invests certain moneys belonging to the ISC	3/3/1994 thru Indefinite	N/A	N/A	Both Entities	Both Entities
2 Modification of outlet works at Ute Dam	Office of the State Engineer/US Army Corp	Office of the State Engineer	Modification of outlet works at Ute Dam	5/15/1997 thru completion	\$ 927,280	COMPLETE	Both Entities	Both Entities
3 Silvery Minnow facility	Interstate Stream Commission/City of Albuquerque	Interstate Stream Commission	Design, construct, operate and maintain a nature rearing and breeding facility for the Silvery Minnow	10/5/2001 thru 10/5/2011	\$ 1,905,000	COMPLETE	Both entities	Both Entities
4 Water litigation with the State of Texas	Interstate Stream Commission/ Office of the Attorney General of New Mexico	Interstate Stream Commission	Prepare for anticipated water litigation with the State of Texas	3/11/2002 thru completion	\$ 3,669,000	\$ 1,424,000	Both Entities	Both Entities
5 Operation, maintenance and development of a park and recreation area for Eagle Nest Lake	Office of the State Engineer, Interstate Stream Commission, Energy Minerals and Natural Resources and Game and Fish Dept.	Interstate Stream Commission	Operation, maintenance and development of a park and recreation area for Eagle Nest Lake	10/25/2005 thru 6/30/2027	As Budgeted per each Department	As Budgeted per each Department	All Entities	Both Entities
6 Administer the water rights in the district	Office of the State Engineer, Interstate Stream Commission/San Miguel County	Interstate Stream Commission	Administer the water rights in the district	11/16/2004 thru Indefinite	\$ 11,200 (amount to be provided by San Miguel for water master expenses)	N/A	ISC	Both Entities
7 Technical services in support of water quality sampling on the Canadian River	Office of the State Engineer, Interstate Stream Commission, NM Environment Dept	Interstate Stream Commission	Technical services in support of water quality sampling on the Canadian River	4/20/2006 thru Indefinite	\$ 45,000	NONE	Both Entities	Both Entities
8 Technical services in support of water quality sampling on the Gila Water Shed	Office of the State Engineer, Interstate Stream Commission, NM Environment Dept	Interstate Stream Commission	Technical services in support of water quality sampling on the Gila Water Shed	4/20/2006 thru Indefinite	\$ 45,000	NONE	Both Entities	Both Entities
9 Maintain areas of phreatophytes	Interstate Stream Commission/Bureau of Reclamation	Interstate Stream Commission	Maintain area of phreatophytes against regrowth	1/14/2008 thru 6/30/2012	\$ 150,000 per fiscal year	\$ 150,000	Both Entities	Both Entities
10 Coordinate activities for Tamarisk Management in the Colorado River Basin	Central Arizona, Southern Nevada, Colorado Water, Utah Division, Wyoming State Engineers, ISC	All listed	Coordinate activities for Tamarisk Management in the Colorado River Basin	4/25/2008 thru Indefinite	As Budgeted per each Department	As Budgeted per each Department	All Entities	All Entities

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Agreements	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Agency	Amount contributed current fiscal year	Audit Responsibility	Fiscal agent & responsible reporting entity
11 Vegetation Management	US Bureau of Reclamation Interstate Stream Commission	Interstate Stream Commission	Vegetation Management	10/21/2010 thru 9/30/2011	\$ 65,000	\$ -	Both Entities	Both Entities
12 Provide Assistance to Navajo Nation/City of Gallup	NM Environment/ Interstate Stream Commission	Interstate Stream Commission	To acquire rights of way	2/3/2011 thru 6/30/2012	\$ 1,250,000	\$ -	Both Entities	Both Entities
13 Continued Development of the Upper Rio Grande Water Operations Model	US Army Corp, US Bureau of Reclamation, Interstate Stream Commission	US Army Corp, US Bureau of Reclamation, Interstate Stream Commission	Continued Development of the Upper Rio Grande Water Operations Model	10/12/2007 thru 10/12/2012	\$ 50,000 annually	NONE	US Army Corp/ US Bureau of Reclamation	Both Entities
14 Constructing Ecosystem Revitalization Route 66	US Army Corp/ Interstate Stream Commission	US Army Corp/ Interstate Stream Commission	Constructing Ecosystem Revitalization Route 66	6/12/2008 thru 6/12/2018	\$ 100 per acre foot	N/A	Both Entities	Both Entities
15 Construct acequias statewide	Interstate Stream Commission Department of Finance	Interstate Stream Commission	Construct acequias statewide	5/4/2010 6/30/2012	\$ 200,000	N/A	Both Entities	Both Entities
16 Stratigraphy and Hydro North Central NM	Office of the State Engineer US Dept. of Interior	Office of the State Engineer	Stratigraphy and Hydro North Central NM	12/1/2010 9/30/2011	\$ 20,000	\$ 20,000	Both Entities	Both Entities
17 Acquire rights of way and construct pipeline Navajo Nation	Office of the State Engineer NM Environment Dept.	NM Environment Dept.	Acquire rights of way and construct pipeline Navajo Nation	3/17/2009 6/30/2012	\$ 1,250,000	None	Both Entities	Both Entities
18 Functioning water leasing market	Office of the State Engineer/University of New Mexico	Office of the State Engineer	Functioning water leasing market	2/23/2010 9/30/2011	\$ 100,001	\$ 75,626	Both Entities	Both Entities
19 Plan, design and construct diversion structure	Office of the State Engineer/City of Las Vegas	Office of the State Engineer	Plan, design and construct diversion structure	10/5/2009 6/30/2012	\$ 500,000	\$ -	Both Entities	Both Entities
20 Water leasing market	Interstate Stream Commission University of New Mexico	Interstate Stream Commission	Water leasing market on the Mimbres River	2/23/2010 9/30/2012	\$ 100,001	\$ 49,445	Both Entities	Both Entities
21 Water Conservation Measures	Interstate Stream Commission Carlsbad Irrigation Dist.	Interstate Stream Commission	Water Conservation Measure	9/26/2011 9/30/2011	\$ 100,000	\$ 100,000	Both Entities	Both Entities
22 Data Collection	Office of the State Engineer/ US Dept of Interior	Office of the State Engineer	Data Collection and Investigation	7/1/2011 6/30/2012	\$ 182,630	\$ 182,630	Both Entities	Both Entities
23 Burros Project	Interstate Stream Commission Grant Soil/Water Conservation	Interstate Stream Commission	Document avian use, threat or endangered species	1/27/2012 6/30/2012	\$ 16,000	\$ 16,000	Both Entities	Both Entities
24 Watershed Study	Interstate Stream Commission Grant Soil/Water Conservation	Interstate Stream Commission	Improvement of habitat for estimate of water salvage	1/27/2012 6/30/2012	\$ 7,100	\$ 7,100	Both Entities	Both Entities
25 Pilot Study	Office of the State Engineer/ US Dept of Interior	Office of the State Engineer	Determine effectiveness of using time domain electromagnetic soundings	2/29/2012 6/30/2012	\$ 6,985	\$ 6,985	Both Entities	Both Entities

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Schedule of Joint Powers Agreements, Memorandum of Understanding and Other Governmental Agreements
For the Year Ended June 30, 2012

Agreements	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Agency		Amount contributed current fiscal year	Audit Responsibility	Fiscal agent & responsible reporting entity	
26 Geologic Mapping	Office of the State Engineer/ NM Institute of Mining	Office of the State Engineer	Geologic mapping in the San Agustin Plains	3/2/2012 12/31/2012	\$	21,009	\$	21,009	Both Entities	Both Entities
27 Water/Soil Analysis	Interstate Stream Commission NM Institute of Mining	Interstate Stream Commission	Water and Soil analysis for Southern Roswell Basin	7/29/2011 6/30/2012	\$	35,704	\$	35,704	Both Entities	Both Entities
28 Streamflow Gaging Station	Office of the State Engineer/ US Dept of Interior	Office of the State Engineer	Operation/Maintenance of streamflow gaging station at Gallinas River	9/1/2011 6/30/2012	\$	8,580	\$	8,580	Both Entities	Both Entities
29 Vegetation Management	Interstate Stream Commission US Bureau of Reclamation	Interstate Stream Commission	Vegetation Management at Caballo and Elephant Butte	10/1/2011 9/30/2016	\$	75,000	\$	75,000	Both Entities	Both Entities
30 Water Conservation Meas.	Interstate Stream Commission/ US Bureau of Reclamation	Interstate Stream Commission	Water conservation measure along the Rio Grande	4/26/2012 9/30/2012	\$	860,000	\$	860,000	Both Entities	Both Entities
31 Data Compendium	Interstate Stream Commission US Dept of Interior	Interstate Stream Commission	Middle Rio Grande Data Compendium Updates	12/9/2011 9/30/2012	\$	39,329	\$	39,329	Both Entities	Both Entities
32 Water Leasing Market	Office of the State Engineer Sandia National Lab	Office of the State Engineer	Water Leasing Market for Mimbres River	12/8/2009 10/8/2011	\$	139,818	\$	139,818	Both Entities	Both Entities
33 Seepage Run	Interstate Stream Commission US Dept of Interior	Interstate Stream Commission	Water Resource Investigation seepage run in the lower Rio Grande Basin	4/25/2012 6/30/2013	\$	76,112	\$	76,112	Both Entities	Both Entities
34 Ground Water Flow	Interstate Stream Commission US Dept of Interior	Interstate Stream Commission	Groundwater flow system stream aquifer relations in the Mesilla Basin	7/1/2011 6/30/2012	\$	20,790	\$	20,790	Both Entities	Both Entities
35 Salinity Management	Interstate Stream Commission Environment Department	Interstate Stream Commission	Rio Grande Salinity Mgt. Coalition	9/16/2011 6/30/2012	\$	50,000	\$	50,000	Both Entities	Both Entities
36 Navajo-Gallup Cost Share	Interstate Stream Commission US Bureau of Reclamation	Interstate Stream Commission	Navajo-Gallup Cost Share	6/27/2011 12/30/2024	\$	8,600,000	\$	8,600,000	Both Entities	Both Entities
37 Vegetation Management	Interstate Stream Commission US Bureau of Reclamation	Interstate Stream Commission	Vegetation Mgmt. At Caballo Elephant Butte	10/1/2011 9/30/2016	\$	65,000	\$	65,000	Both Entities	Both Entities
38 Streamflow Gages	Interstate Stream Commission US Dept of Interior	Interstate Stream Commission	Operation and Maintenance Streamflow Gages	7/1/2011 6/30/2012	\$	475,000	\$	475,000	Both Entities	Both Entities

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2012

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
Fund 267						
Special, Deficiency, Specific and Capital Outlay Appropriations						
Laws of 2008, Chapter 92, Section 47, Subsection 7	A083809	\$ 25,000	07/01/2008-06/30/2012	\$ 24,911	89	-
Laws of 2008, Chapter 92, Section 47, Subsection 11	A083812	10,000	07/01/2008-06/30/2012	10,000	-	-
Laws of 2008, Chapter 92, Section 47, Subsection 13	A083813	48,601	07/01/2008-06/30/2012	39,124	9,478	-
Laws of 2008, Chapter 92, Section 47, Subsection 14	A083814	34,000	07/01/2008-06/30/2012	33,441	559	-
Laws of 2008, Chapter 92, Section 57, Subsection 2	A084047	70,000	07/01/2008-06/30/2012	69,987	13	-
Laws of 2008, Chapter 92, Section 57, Subsection 7	A084052	15,000	07/01/2008-06/30/2012	14,760	240	-
Laws of 2008, Chapter 92, Section 57, Subsection 17	A084058	10,000	07/01/2008-06/30/2012	7,341	2,659	-
Laws of 2008, Chapter 92, Section 57, Subsection 18	A084059	20,000	07/01/2008-06/30/2012	19,876	124	-
Laws of 2008, Chapter 92, Section 57, Subsection 31	A084068	30,000	07/01/2008-06/30/2012	30,000	-	-
Laws of 2008, Chapter 92, Section 57, Subsection 32	A084069	10,000	07/01/2008-06/30/2012	10,000	-	-
Laws of 2008, Chapter 92, Section 57, Subsection 33	A084070	10,000	07/01/2008-06/30/2012	9,616	384	-
Laws of 2008, Chapter 92, Section 57, Subsection 34	A084071	50,000	07/01/2008-06/30/2012	50,000	-	-
Laws of 2008, Chapter 92, Section 57, Subsection 36	A084073	20,000	07/01/2008-06/30/2012	20,000	-	-
Laws of 2008, Chapter 92, Section 57, Subsection 37	A084074	50,000	07/01/2008-06/30/2012	49,980	20	-
Laws of 2008, Chapter 92, Section 57, Subsection 38	A084075	25,000	07/01/2008-06/30/2012	22,732	2,268	-
Laws of 2008, Chapter 92, Section 57, Subsection 43	A084079	25,000	07/01/2008-06/30/2012	24,682	318	-
Laws of 2008, Chapter 92, Section 57, Subsection 47	A084083	35,000	07/01/2008-06/30/2012	34,981	19	-
Laws of 2008, Chapter 92, Section 14, Subsection 1	A083072	1,250,000	07/01/2008-06/30/2012	1,250,000	-	-
Laws of 2008, Chapter 92, Section 14, Subsection 2	A083073	450,000	07/01/2008-06/30/2012	435,099	14,901	-
Laws of 2008, Chapter 92, Section 14, Subsection 4	A083075	400,000	07/01/2008-06/30/2012	399,429	402	169
Laws of 2008, Chapter 92, Section 14, Subsection 5	A083076	500,000	07/01/2008-06/30/2012	500,000	-	-
Laws of 2008, Chapter 92, Section 14, Subsection 9	A083080	1,800,000	07/01/2008-06/30/2012	1,799,610	351	39
Laws of 2009, Chapter 5, Section 2, Subsection B	A093002	1,000,000	07/01/2009-06/30/2013	152,391	847,360	248
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 47	A093789	750,000	07/01/2009-06/30/2013	750,000	-	-
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 48	A093790	850,000	07/01/2009-06/30/2013	-	164,205	685,795
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 49	A093791	482,750	07/01/2009-06/30/2013	41,160	441,590	-
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 64	A093803	371,122	07/01/2009-06/30/2013	348,163	14,122	8,836
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 107	A093841	10,000	07/01/2009-06/30/2013	9,920	80	-
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 108	A093842	65,427	07/01/2009-06/30/2013	65,427	-	-
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 109	A093843	50,000	07/01/2009-06/30/2013	12,063	37,937	-

STATE OF NEW MEXICO
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SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2012

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
Fund 267, continued						
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 110	A093844	15,000	07/01/2009-06/30/2013	15,000	-	-
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 115	A093849	25,000	07/01/2009-06/30/2013	-	-	25,000
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 116	A093850	75,000	07/01/2009-06/30/2013	74,869	131	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 9	A101116	200,000	07/01/2010-06/30/2014	46,321	3,347	150,332
Total Capital Outlay Appropriations - Fund 267		\$ 8,781,900		\$ 6,370,884	1,540,596	870,420
Total unexpended balance						\$ 2,411,016
Reconciliation to fund balance (267)						
1) Less: Severance tax bond - revenue accrued on reimbursement basis						(2,394,846)
2) Less: Reversions of unexpended balance for appropriations expiring June 30, 2012						(16,170)
Fund balance after reconciling items						-
Fund balance per financial statements						-
Difference						-
FUND 892 STB Capital Outlay						
Laws of 2011, Chapter 183, Section 33	A073717	\$ 142,447	07/01/2011-06/30/2013	\$ 142,447		-
Laws of 2011, Chapter 183, Section 116	A083081	3,199,862	07/01/2011-06/30/2013	622,329	2,577,534	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(a)	A101117	40,000	07/01/2011-06/30/2014	-	40,000	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(b)	A101118	10,000	07/01/2011-06/30/2014	-	-	10,000
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(c)	A101119	10,000	07/01/2011-06/30/2014	-	-	10,000
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(d)	A101120	20,000	07/01/2011-06/30/2014	18,587	1,413	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(e)	A101121	10,000	07/01/2011-06/30/2014	-	-	10,000
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(f)	A101122	25,000	07/01/2011-06/30/2014	18,810	2,660	3,530
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(g)	A101123	11,000	07/01/2011-06/30/2014	11,000	-	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(h)	A101124	10,000	07/01/2011-06/30/2014	10,000	-	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(i)	A101125	25,000	07/01/2011-06/30/2014	25,000	-	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(j)	A101126	100,000	07/01/2011-06/30/2014	-	100,000	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(k)	A101127	116,000	07/01/2011-06/30/2014	-	116,000	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(l)	A101128	75,000	07/01/2011-06/30/2014	-	-	75,000
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(n)	A101130	\$ 50,000	07/01/2011-06/30/2014	\$ 34,536	15,464	-

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Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
FUND 892 STB Capital Outlay, continued						
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(o)	A101131	\$ 10,000	07/01/2011-06/30/2014	\$ 9,124	876	-
Laws of 2010, Chapter 105, Section 18(A), Subsection 10(p)	A101132	35,000	07/01/2011-06/30/2014	23,699	11,301	-
Laws of 2010 2nd S.S., Chapter 4, Section 7	A101282	1,000,000	07/01/2011-06/30/2014	100,807	828,080	71,113
Laws of 2011, Chapter 5, Section 16	A111303	15,000,000	07/01/2011-06/30/2016	-	-	15,000,000
Laws of 2012, Chapter 64, Section 10, Subsection 3	A121334	100000	06/01/2012-06/30/2016	-	-	100,000
Laws of 2012, Chapter 64, Section 10, Subsection 4	A121335	200000	06/01/2012-06/30/2016	-	-	200,000
Laws of 2012, Chapter 64, Section 15, Subsection 1	A121394	50000	06/01/2012-06/30/2016	-	-	50,000
Laws of 2012, Chapter 64, Section 15, Subsection 2	A121395	60000	06/01/2012-06/30/2016	-	-	60,000
Laws of 2012, Chapter 64, Section 15, Subsection 3	A121396	30000	06/01/2012-06/30/2016	-	-	30,000
Laws of 2012, Chapter 64, Section 15, Subsection 6	A121397	30000	06/01/2012-06/30/2016	-	-	30,000
Laws of 2012, Chapter 64, Section 15, Subsection 8	A121398	9000	06/01/2012-06/30/2016	-	-	9,000
Laws of 2012, Chapter 64, Section 15, Subsection 9	A121399	10000	06/01/2012-06/30/2016	-	-	10,000
Laws of 2012, Chapter 64, Section 15, Subsection 10	A121400	100000	06/01/2012-06/30/2016	-	-	100,000
Laws of 2012, Chapter 64, Section 15, Subsection 11	A121401	15000	06/01/2012-06/30/2016	-	-	15,000
Laws of 2012, Chapter 64, Section 15, Subsection 12	A121402	60000	06/01/2012-06/30/2016	-	-	60,000
Laws of 2012, Chapter 64, Section 15, Subsection 13	A121403	33000	06/01/2012-06/30/2016	-	-	33,000
Laws of 2012, Chapter 64, Section 15, Subsection 16	A121404	20000	06/01/2012-06/30/2016	-	-	20,000
Laws of 2012, Chapter 64, Section 15, Subsection 20	A121405	100000	06/01/2012-06/30/2016	-	-	100,000
Laws of 2012, Chapter 64, Section 15, Subsection 22	A121406	56000	06/01/2012-06/30/2016	-	-	56,000
Laws of 2012, Chapter 64, Section 15, Subsection 25	A121407	50000	06/01/2012-06/30/2016	-	-	50,000
Total Capital Outlay Appropriations - Fund 892		\$ 20,812,309		\$	3,693,328	16,102,643
Total unexpended balance						\$ 19,795,971
Reconciliation to fund balance (892)						
(1) Less: Severance tax bond - revenue accrued on reimbursement basis						4,795,971
Fund balance after reconciling items						15,000,000
Fund balance per financial statements						15,000,000
Difference						\$ -

STATE OF NEW MEXICO
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SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2012

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
FUND 931 GF Capital Outlay						
Laws of 2011, Chapter 183, Section 78	A073277	\$ 6,594	07/01/2011-06/30/2013	\$ 3,170	3,424	-
Laws of 2011, Chapter 183, Section 80	A073278	7,761	07/01/2011-06/30/2013	7,754	-	6
Laws of 2011, Chapter 183, Section 73	A074811	24,389	07/01/2011-06/30/2013	-	-	24,389
Laws of 2011, Chapter 183, Section 74	A074812	33,753	07/01/2011-06/30/2013	32,214	1,539	0
Laws of 2011, Chapter 183, Section 76	A074813	16,680	07/01/2011-06/30/2013	-	-	16,680
Total Capital Outlay Appropriations - Fund 931		\$ 89,177		\$ 43,138	4,963	41,075
Total unexpended balance						\$ 46,038
Fund balance per financial statements						46,038
Difference						\$ -
FUND 214 OSE General Fund						
Laws of 2012, Chapter 19, Section 7, Subsection 14	Z20714	\$ 220,000	03/02/2012-06/30/2013	\$ 200,000	-	\$ 20,000
FUND 2017 Indian Water Rights Settlement						
Laws of 2009, Chapter 5, Section 2, Subsection B (11)	A093009	\$ 10,000,000		\$ 8,600,000	-	\$ 1,400,000



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

Mr. Hector H. Balderas, State Auditor
and
Mr. Jim Dunlap, Chairman
Scott A. Verhines, State Engineer
Office of the State Engineer/Interstate Stream Commission
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and major special revenue funds, the fiduciary funds, and the combining and individual funds and budgetary comparisons presented as supplementary information of the Office of the State Engineer / Interstate Stream Commission (the Agency) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 10, 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 Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Agency'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 Agency'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.

December 10, 2012

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, 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.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
December 10, 2012



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Hector H. Balderas, State Auditor
and
Mr. Jim Dunlap, Chairman
Scott A. Verhines, State Engineer
Office of the State Engineer/Interstate Stream Commission
Santa Fe, New Mexico

Compliance

We have audited the Office of the State Engineer / Interstate Stream Commission (the Agency)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the agency's major federal programs for the year ended June 30, 2012. The agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the agency's management. Our responsibility is to express an opinion on the agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the agency'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. Our audit does not provide a legal determination of the agency's compliance with those requirements.

In our opinion, the Office of the State Engineer / Interstate Stream Commission, complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, 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.



Hinkle + Landers, P.C.
December 10, 2012

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Non-compliance material to financial statements noted?	No

Federal Awards

Internal Control	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors’ report issued on major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
15.517	Operations & Maintenance – Los Lunas Silvery Minnow Refugium	US Department of Interior – Bureau of Reclamation
84.397	ARRA – State Fiscal Stabilization Fund	US Department of Education

Dollar threshold used to distinguish between A and B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

SECTION II AND III- FINANCIAL STATEMENT FINDINGS

Finding	Status of Current and Prior Year Findings	Financial Statement Finding	Federal Awards Finding	State Audit Rule Finding
Prior:				
10-01 Timeliness of Cash Deposits	Resolved			
Current:				
None				

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
EXIT CONFERENCE
For the Year Ended June 30, 2012**

An exit conference was held on December 10, 2012. Present at the exit conference were:

Scott Verhines	State Engineer
Estevan Lopez	Director, Interstate Stream Commission
Curtis Eckhart	Director, Program Support
Farley Vener, CPA, CFE	Independent auditor, Hinkle + Landers, P.C.
Shannon Gilliland, CPA, CGFM	Independent auditor, Hinkle + Landers, P.C.

PREPARATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements of the Agency have been prepared by Hinkle + Landers, P.C., the organization's independent public auditor; however, the financial statements are the responsibility of management.