



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, 2013

**STATE OF NEW MEXICO
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, 2013**

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

Report on Financial Statements

We have audited the accompanying 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 of the Office of the State Engineer/Interstate Stream Commission (Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, 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, and the budgetary comparisons for the major capital project funds, and all nonmajor funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Agency as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the major capital project funds, and all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

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

Other Information

Our audit was conducted for the purpose of forming opinions on the Agency's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The Schedule of Expenditures of Federal Awards as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the other schedules, listed as "other supplemental information" in the table of contents, required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and other schedules, listed as "other supplemental information" in the table of contents, required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures and other schedules, listed as "other supplemental information" in the table of contents, required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, 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 grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Agency's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.
Albuquerque, NM
December 16, 2013

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

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, 2013. 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 powers to investigate, protect, conserve and develop New Mexico's waters, including both interstate and intrastate stream systems.

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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

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.

Government-wide Financial Statements

The government-wide financial statements include a statement of net position and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. 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.

STATE OF NEW MEXICO
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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

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, 2013**

ANALYSIS OF AGENCY'S FINANCIAL STATEMENTS

Agency Net Position

The Statement of Net Position shows the difference between total assets and total liabilities. The table below provides a summary comparison the Statement of Net Position for fiscal years ending June 30, 2012 and 2013.

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

	<u>2013</u>	<u>2012</u>	<u>Amount Change</u>
Assets			
Current assets	\$ 80,925,309	\$ 64,336,872	\$ 16,588,437
Capital and other non- Current Assets	<u>151,300,162</u>	<u>166,368,055</u>	<u>(15,067,893)</u>
Total Assets	<u>\$ 232,225,471</u>	<u>\$ 230,704,927</u>	<u>\$ 1,520,544</u>
Liabilities			
Current liabilities	\$ 6,429,407	\$ 5,161,145	\$ 1,268,262
Non-Current Liabilities	<u>75,214,410</u>	<u>91,400,000</u>	<u>(16,185,590)</u>
Total Liabilities	<u>81,643,817</u>	<u>96,561,145</u>	<u>(14,917,328)</u>
Net Position			
Investment in Capital Assets	103,016,687	103,573,542	(556,855)
Restricted	67,567,198	123,066,952	(55,499,754)
Unrestricted	<u>(20,002,231)</u>	<u>(92,496,712)</u>	<u>72,494,481</u>
Total Net Position	<u>150,581,654</u>	<u>134,143,782</u>	<u>16,437,872</u>
Total Liabilities and Net Position	<u>\$ 232,225,471</u>	<u>\$ 230,704,927</u>	<u>\$ 1,520,544</u>

The Agency had total assets of \$232,225,471 and total liabilities of \$81,643,817 for fiscal year

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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

2013. The Agency's net position for fiscal year 2013 was \$150,581,654, an increase of \$16,437,872 relative to fiscal year 2012. This increase is primarily attributable to the reduction in the remaining share of the State's participation in three major Indian water rights settlements as a result of expenditures totaling \$5,210,590 towards the settlements and an adjustment reducing the remaining liability of \$10,000,000 for settlement expenditures that aren't required as part of the settlement. In addition, the estimated credit for prior expenditures was increased by \$1,015,000 to \$31,015,000. The net effect of these settlement expenditures and adjustments on the net position is an increase of \$16,185,590. Excluding the net reduction in the State's portion of these settlements, the Agency's net position would have increased by only \$252,282. These settlements are discussed further within the Notes to Financial Statements.

Changes in Net Position

The Statement of Activities presents the detail changes in net position. The table below provides a summary comparison of the Statement of Activities for fiscal years ending June 30, 2012 and 2013.

Comparison of Statement of Activities

	<u>2013</u>	<u>2012</u>	<u>Amount Change</u>
Expenses			
Agriculture, Energy and Natural Resources	\$ 42,283,643	\$ 36,611,433	\$ 5,672,210
Program revenues	<u>13,723,226</u>	<u>13,837,232</u>	<u>(114,006)</u>
Net program expense	<u>(28,560,417)</u>	<u>(22,774,201)</u>	<u>5,558,204</u>
General revenues			
General Fund appropriation	22,176,900	14,598,500	7,578,400
Gain (loss) on disposal of asset, net	<u>-</u>	<u>55,995</u>	<u>(55,995)</u>
Total general revenues	<u>22,176,900</u>	<u>14,654,495</u>	<u>7,522,405</u>
Other financing sources (uses) & special items			
Net Transfers	8,080,051	31,442,298	(23,362,247)
Special items	<u>14,741,338</u>	<u>(29,927,140)</u>	<u>44,668,478</u>
Total other financing sources (uses) & special items	22,821,389	1,515,158	21,306,231
Change in net position	<u>16,437,872</u>	<u>(6,604,548)</u>	<u>23,042,420</u>
Net assets, beginning	134,143,782	140,748,330	(6,604,548)
Net assets, ending	<u>\$ 150,581,654</u>	<u>\$ 134,143,782</u>	<u>\$ 16,437,872</u>

For fiscal year 2013, the Agency's net position amounted to \$150,581,654, an increase of \$16,437,872 from fiscal year 2012. Below is a discussion of the primary components of the

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

Agency's Statement of Activities:

Revenue - The Agency's program revenues consist mainly of earnings on investments and other miscellaneous revenue. Program revenue of \$13,723,226 was recognized in fiscal year 2013, a net decrease of \$114,006. The general revenues of the agency, consisting primarily of general fund appropriations, and amounted to \$22,176,900. This was an increase of \$7,522,405 from fiscal year 2012.

Expenses - The Agency's expenses consist of personal services and employee benefits, contractual services, other expenses, and depreciation expenses. Expenditures for fiscal year 2013 were \$5,672,210 above fiscal year 2012. Most of this increase occurred in contractual services due to payments made towards the Indian water rights settlements.

Net Transfers - The Agency had net transfers in of \$8,080,051, primarily consisting of severance tax bond proceeds transfer to reimburse for capital outlay expenditures and amounting to \$5,595,911. In addition, the Agency had interagency transfers in of \$3,223,893. Offsetting these transfers in were reversions to the state general fund of \$739,753 consisting primarily of permit fees collected on behalf of the State.

Special Items - Special items include both the adjustments to the State's share of the three major Indian water rights settlements (\$10,975,000) and interest earned and accrued to the State for its' participation in the Arizona Water Rights Settlement (\$3,766,338). The net effect of these two items is an increase to net position of \$14,741,338.

Governmental Funds

The governmental funds of the Agency reported a combined balance of \$67,424,688, which is an increase of \$5,390,596 over fiscal year 2012. This increase is primarily attributable to the net of revenue received for both a special appropriation for water litigation (\$6,500,000) and revenue received for the second installment payment for the State's participation in the Arizona Water Settlement (\$9,040,000) against increased expenditures of balances of severance tax bond proceeds appropriated and received for the State's participation in the three major Indian water rights settlements and increased expenditures from the Irrigation Works Construction Fund (326).

CAPITAL ASSETS

The Agency's capital assets, net of depreciation, total \$103,016,687. This includes land and water rights valued at \$74,865,773, and infrastructure, comprised of the Ute Lake Dam as well as water measurement and metering infrastructure. A total of \$662,145 was added in fiscal year 2013, including construction works-in-progress of \$341,674, furniture and fixtures of \$186,125, and machinery and equipment of \$134,046. The Agency had deletions of \$99,845 from the sale of land and from dispositions of machinery and equipment.

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.

In addition, appropriations from the Irrigation Works Construction Fund (#326) to support the operations of the agency have increased significantly over the past few years in lieu of General

**STATE OF NEW MEXICO
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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

Fund appropriations. In fiscal year 2013, expenditures and transfers from the fund exceeded revenue and transfers into the fund by close to \$4.9 million. This difference is projected to increase to a little over \$7 million in fiscal year 2014. Unless steps are taken to decrease the proportion of Irrigation Works Construction Fund used to support agency operations, the fund will be fully depleted before the end of fiscal year 2016 at this rate of depletion. Consequently, the agency could be faced with significant budget reductions, drastically impacting both the agency's operations and its' ability to carry out the mission and statutory mandates.

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:

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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 POSITION (DEFICIT)
As of June 30, 2013

ASSETS	<u>Governmental Activities</u>
Current assets	
Petty cash	\$ 125
State General Fund Investment Pool	48,851,571
Receivables, net	502,425
Prepaid expenses	745,000
Due from other state agencies	1,250,390
Due from federal government	553,882
Investments	19,981,916
Settlement due from federal government, current portion	<u>9,040,000</u>
Total current assets	80,925,309
Noncurrent assets	
Loans receivable, net of allowance	1,564,277
Settlement due from federal government	46,719,198
Capital assets, net of depreciation	<u>103,016,687</u>
Total assets	<u>\$ 232,225,471</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 4,526,530
Accrued salaries and benefits payable	414,110
Due to other state agencies	62,620
Due to state General Fund	334,323
Compensated absences:	
Expected to be paid within one year	1,091,824
Indian Water Rights Settlement:	
Expected to be paid within one year	<u>-</u>
Total current liabilities	<u>6,429,407</u>
Noncurrent liabilities	
Indian Water Rights Settlement, long-term portion	<u>75,214,410</u>
Total liabilities	<u>81,643,817</u>
NET POSITION (DEFICITS)	
Restricted for:	
Expenditure in future years	21,792,821
Ute Dam operating/construction	519,074
Loans	1,564,277
Investigation and construction of water conservation projects	18,477,717
Improvement and increase of surface flow of Rio Grande River	6,265,750
Water projects in the Gila region	17,179,404
Indian water rights settlement	1,189,410
Pecos River Basin land management	578,745
Unrestricted	(20,002,231)
Investment in capital assets	<u>103,016,687</u>
Total net position	<u>150,581,654</u>
Total liabilities and net position	<u>\$ 232,225,471</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
(GOVERNMENT-WIDE)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Governmental Activities
Expenses	
Agriculture, Energy and Natural Resources	
Current:	
Personal services and employee benefits	\$ 20,607,720
Contractual services	14,291,726
Other	6,230,897
Depreciation expense	1,153,300
Total expenses	42,283,643
Program revenues	
Charges for services	55,774
Operating grants and contributions	13,314,686
Capital grants and contributions	352,766
Total program revenues	13,723,226
Net program expense	(28,560,417)
General revenues	
General Fund appropriation	22,176,900
Gain (loss) on disposal of asset, net	-
Total general revenues	22,176,900
Other financing sources (uses) & special items	
Transfers in (out):	
Severance tax bond appropriations	5,595,911
Interagency transfers in	3,223,893
Reversion to the State General Fund	(739,753)
Interagency transfers out	-
Special items:	
Adjustment to Indian Water Rights Settlement	10,975,000
Arizona Water Settlement	3,766,338
Total other financing sources (uses) & special items	22,821,389
Change in net position	16,437,872
Net position, beginning	134,143,782
Net position, ending	\$ 150,581,654

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, 2013

	Major Funds							
	214/864	326	328	2017	3081	892	Other	Total
	General	Irrigation	Improvement	Indian	New Mexico	STB Capital	Funds	Governmental
	Fund	Works	of the	Water Rights	Unit	Outlay		Funds
		Construction	Rio Grande	Settlement	Fund	Fund		
		Fund	Fund	Fund				
ASSETS								
Petty Cash	\$ 125	-	-	-	-	-	-	125
State General Fund Investment Pool	10,862,938	2,816,000	5,287,868	1,189,410	17,525,518	9,996,164	1,173,673	48,851,571
Receivables, net of allowance	133,669	368,633	-	-	-	-	124	502,426
Due from other funds	4,447,986	235	-	-	-	-	119	4,448,340
Due from other state agencies	-	480,881	110,074	-	1,540	624,387	33,507	1,250,389
Due from federal sources	246,958	-	-	-	-	-	306,924	553,882
Prepaid expense	745,000	-	-	-	-	-	-	745,000
Investments	-	18,539,570	1,442,345	-	-	-	-	19,981,915
Loan receivables, net of allowance	-	1,564,277	-	-	-	-	-	1,564,277
Total assets	16,436,676	23,769,596	6,840,287	1,189,410	17,527,058	10,620,551	1,514,347	77,897,925
DEFERRED OUTFLOW OF RESOURCES								
	-	-	-	-	55,759,198	-	-	55,759,198
Total assets and deferred outflow of resources	\$ 16,436,676	23,769,596	6,840,287	1,189,410	73,286,256	10,620,551	1,514,347	133,657,123
LIABILITIES								
Accounts payable	\$ 3,361,323	126,212	-	-	335,909	620,551	82,534	4,526,529
Accrued payroll	193,209	-	-	-	-	-	-	193,209
Payroll related liabilities	220,902	-	-	-	-	-	-	220,902
Due to other funds	354	3,538,325	574,537	-	11,745	-	323,379	4,448,340
Due to other state agencies	62,620	-	-	-	-	-	-	62,620
Due to State General Fund	323,708	-	-	-	-	-	10,615	334,323
Total liabilities	4,162,116	3,664,537	574,537	-	347,654	620,551	416,528	9,785,923
DEFERRED INFLOW OF RESOURCES								
	142,635	63,065	-	-	55,759,198	481,614	-	56,446,512
Total liabilities and deferred inflow of resources	4,304,751	3,727,602	574,537	-	56,106,852	1,102,165	416,528	66,232,435
FUND BALANCE								
Nonspendable: Prepaid expense	745,000	-	-	-	-	-	-	745,000
Nonspendable: Long-term receivables	-	1,564,277	-	-	-	-	-	1,564,277
Restricted	15,000	-	-	-	-	-	-	15,000
Committed	11,514,435	18,477,717	6,265,750	1,189,410	17,179,404	9,518,386	1,097,819	65,242,921
Assigned	-	-	-	-	-	-	-	-
Unassigned	(142,510)	-	-	-	-	-	-	(142,510)
Total fund balance	12,131,925	20,041,994	6,265,750	1,189,410	17,179,404	9,518,386	1,097,819	67,424,688
Total liabilities and fund balance	\$ 16,436,676	23,769,596	6,840,287	1,189,410	73,286,256	10,620,551	1,514,347	133,657,123

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 Position
As of June 30, 2013

Total fund balance - Governmental funds	\$	67,424,688
<p>Amounts reported for governmental activities in the Statement of Net Position 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>		103,016,687
<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		(75,214,410)
Compensated absences payable		(1,091,824)
<p>Some revenue is deferred in the funds but accrued as revenue in the government-wide statements and added to net position</p>		56,446,512
Rounding		<u>1</u>
Net position of governmental activities	\$	<u><u>150,581,654</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
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	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	\$ 324,951	-	-	-	-	-	352,766	677,717
Charges for services	-	-	-	-	-	-	55,775	55,775
Investment earnings (loss)	-	7,744,364	1,480,201	-	26,856	-	-	9,251,421
Interest on loans	-	40,245	-	-	-	-	-	40,245
Miscellaneous revenue	831,292	2,546,759	58,705	-	9,040,000	-	56,617	12,533,373
Total revenues	1,156,243	10,331,368	1,538,906	-	9,066,856	-	465,158	22,558,531
Expenditures								
Agriculture, Energy and Natural Resources								
Current:								
Personal services and benefits	20,612,608	-	-	-	-	-	-	20,612,608
Contractual services	7,616,485	204,003	-	-	663,893	3,684,186	2,123,162	14,291,729
Other costs	6,090,983	-	-	-	-	306,057	73,362	6,470,402
Capital outlay:	422,640	-	-	-	-	-	-	422,640
Total expenditures	34,742,716	204,003	-	-	663,893	3,990,243	2,196,524	41,797,379
Excess (deficiency) of revenue over expenditures	(33,586,473)	10,127,365	1,538,906	-	8,402,963	(3,990,243)	(1,731,366)	(19,238,848)
Other financing sources (uses)								
Sale of land	-	-	-	-	-	-	64,697	64,697
Transfers in (out):								
General obligation bond proceeds	-	-	-	-	-	-	-	-
Severance tax bond proceeds	-	-	-	-	-	3,508,629	1,605,668	5,114,297
State General Fund appropriations FY12	22,176,900	-	-	-	-	-	-	22,176,900
Interfund transfers in	16,968,873	235	-	-	-	-	-	16,969,108
Interagency transfers in	3,223,893	-	-	-	-	-	-	3,223,893
Interfund transfers (out)	(235)	(15,059,518)	(1,723,356)	-	(185,999)	-	-	(16,969,108)
Interagency transfers (out)	-	-	-	-	-	-	-	-
Reversions	(674,116)	-	-	-	-	-	(65,637)	(739,753)
Special items:								
Indian Water Rights Settlement	-	-	-	(210,590)	-	(5,000,000)	-	(5,210,590)
Arizona Water Settlement	-	-	-	-	-	-	-	-
Total other financing sources (uses) & Special items	41,695,315	(15,059,283)	(1,723,356)	(210,590)	(185,999)	(1,491,371)	1,604,728	24,629,444
Net change in fund balance	8,108,842	(4,931,918)	(184,450)	(210,590)	8,216,964	(5,481,614)	(126,638)	5,390,596
Fund balance, beginning, as originally reported	4,023,083	24,973,912	6,450,200	1,400,000	8,962,440	15,000,000	1,224,457	62,034,092
Restatement	-	-	-	-	-	-	-	-
Fund balance, beginning	4,023,083	24,973,912	6,450,200	1,400,000	8,962,440	15,000,000	1,224,457	62,034,092
Fund balance, ending	\$ 12,131,925	20,041,994	6,265,750	1,189,410	17,179,404	9,518,386	1,097,819	67,424,688

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, 2013**

Net change in fund balances (deficit) - total governmental funds \$ 5,390,596

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	\$ 662,145	
Depreciation	<u>(1,153,300)</u>	(491,155)

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 position differs from the change in fund balance by the cost of land sold.

Land sales		(65,700)
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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		(4,586,347)
Change in estimate of Indian Water Rights revenue		10,975,000
Gain on disposal of assets		-
Change in compensated absences		4,888
Indian Water Rights Settlement expense		<u>5,210,590</u>

Change in net position of governmental activities		\$ <u><u>16,437,872</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, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Miscellaneous revenue	\$ 687,500	698,817	811,292	112,475
Federal funds	347,100	774,488	324,951	(449,537)
Other Financing sources	-	-	-	-
General Fund Appropriations	-	-	-	-
Total revenues	1,034,600	1,473,305	1,136,243	(337,062)
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	22,797,200	21,567,225	20,612,610	954,615
Contractual services	10,860,500	12,003,483	7,616,484	4,386,999
Other	10,544,700	11,346,109	6,513,623	4,832,486
Total expenditures	44,202,400	44,916,817	34,742,717	10,174,100
Excess (deficiency) of revenues over expenditures	(43,167,800)	(43,443,512)	(33,606,474)	9,837,038
Other financing sources (uses)				
General appropriations	22,176,900	22,176,900	22,176,900	-
Operating transfers in	20,990,900	20,990,900	20,192,767	798,133
Operating transfers out	-	-	(235)	(235)
Total other financing sources (uses)	43,167,800	43,167,800	42,369,432	797,898
Reversion	-	-	(674,116)	(674,116)
Change in fund balance	-	(275,712)	8,088,842	8,364,554
Fund balance, beginning of year	743,432	743,432	743,432	-
Fund balance, end of year	\$ 743,432	467,720	8,832,274	8,364,554

Reconciliation of Budgetary Basis to Fund Financial Statement

Change in fund balance per budgetary basis		\$	8,088,842
Adjustments:			
Amounts recorded as revenues/OFS in the fund financial statements, but included in another budget (Fund 864)			20,000
Amounts recorded as expenses/OFU in the fund financial statements, but included in another budget (Fund 864)			-
Total GAAP basis net change in fund balance - fiscal year ended June 30, 2013		\$	8,108,842

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
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, 2013

	<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	195,887	75,887
Investment earnings	8,100,000	8,100,000	7,744,365	(355,635)
Land rental	624,100	624,100	2,350,871	1,726,771
Interest on loans	54,300	54,300	40,245	(14,055)
Fund balance	<u>7,794,600</u>	<u>7,794,600</u>	<u>-</u>	<u>(7,794,600)</u>
Total revenues	<u>16,693,000</u>	<u>16,693,000</u>	<u>10,331,368</u>	<u>(6,361,632)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	400,000	400,000	204,003	195,997
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>400,000</u>	<u>400,000</u>	<u>204,003</u>	<u>195,997</u>
Excess (deficiency) of revenues over expenditures	<u>16,293,000</u>	<u>16,293,000</u>	<u>10,127,365</u>	<u>(6,165,635)</u>
Other financing sources (uses)				
Operating transfers in	16,293,000	16,293,000	235	16,292,765
Operating transfers out	<u>-</u>	<u>-</u>	<u>(15,059,518)</u>	<u>(15,059,518)</u>
Total other financing sources (uses)	<u>16,293,000</u>	<u>16,293,000</u>	<u>(15,059,283)</u>	<u>1,233,247</u>
Change in fund balance	32,586,000	32,586,000	(4,931,918)	(37,517,918)
Fund balance, beginning of year	<u>24,973,912</u>	<u>24,973,912</u>	<u>24,973,912</u>	<u>-</u>
Fund balance, end of year	<u>\$ 57,559,912</u>	<u>57,559,912</u>	<u>20,041,994</u>	<u>(37,517,918)</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
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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Land rental	\$ 191,100	191,100	58,705	(132,395)
Interest on investments	<u>1,635,600</u>	<u>1,635,600</u>	<u>1,480,201</u>	<u>(155,399)</u>
Total revenues	<u>1,826,700</u>	<u>1,826,700</u>	<u>1,538,906</u>	<u>(287,794)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	<u>1,826,700</u>	<u>1,826,700</u>	<u>-</u>	<u>1,826,700</u>
Total expenditures	<u>1,826,700</u>	<u>1,826,700</u>	<u>-</u>	<u>1,826,700</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>1,538,906</u>	<u>1,538,906</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(1,826,700)</u>	<u>(1,826,700)</u>	<u>(1,723,356)</u>	<u>103,344</u>
Total other financing sources (uses)	<u>(1,826,700)</u>	<u>(1,826,700)</u>	<u>(1,723,356)</u>	<u>103,344</u>
Change in fund balance	(1,826,700)	(1,826,700)	(184,450)	1,642,250
Fund balance, beginning of year	<u>6,450,200</u>	<u>6,450,200</u>	<u>6,450,200</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,623,500</u>	<u>4,623,500</u>	<u>6,265,750</u>	<u>1,642,250</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, 2013

	<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>-</u>	<u>10,000,000</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>210,590</u>	<u>1,189,410</u>
Total expenditures	<u>10,000,000</u>	<u>10,000,000</u>	<u>210,590</u>	<u>9,789,410</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(210,590)</u>	<u>210,590</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	-	-	(210,590)	(210,590)
Fund balance, beginning of year	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,400,000</u>	<u>1,400,000</u>	<u>1,189,410</u>	<u>(210,590)</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
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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ -	3,213,900	9,040,000	5,826,100
Interest on investments	-	-	26,856	26,856
Total revenues	<u>-</u>	<u>3,213,900</u>	<u>9,066,856</u>	<u>26,856</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	1,447,758	4,297,758	663,893	3,633,865
Other	-	-	-	-
Total expenditures	<u>1,447,758</u>	<u>4,297,758</u>	<u>663,893</u>	<u>3,633,865</u>
Excess (deficiency) of revenues over expenditures	<u>(1,447,758)</u>	<u>(1,083,858)</u>	<u>8,402,963</u>	<u>9,486,821</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(160,000)</u>	<u>(160,000)</u>	<u>(185,999)</u>	<u>(25,999)</u>
Total other financing sources (uses)	<u>(160,000)</u>	<u>(160,000)</u>	<u>(185,999)</u>	<u>(25,999)</u>
Change in fund balance	(1,607,758)	(1,243,858)	8,216,964	9,460,822
Fund balance, beginning of year	<u>8,962,440</u>	<u>8,962,440</u>	<u>8,962,440</u>	<u>-</u>
Fund balance, end of year	<u>\$ 7,354,682</u>	<u>7,718,582</u>	<u>17,179,404</u>	<u>9,460,822</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, 2013

	<u>Agency Funds</u>
Assets	
Cash and investments	\$ <u>598,444</u>
Total assets	\$ <u><u>598,444</u></u>
Liabilities	
Water rights protest hearing/other deposits	\$ 29,607
Deposits held in custody for others	<u>567,658</u>
Total liabilities	\$ <u><u>598,444</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, 2013

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

STATE OF NEW MEXICO
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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.

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 Position, the governmental activities are presented using the *economic resources measurement focus* and the *accrual basis of accounting*, which incorporate long-term assets, receivables, and deferred outflows of resources as well as, long-term debt, obligations, and deferred inflows of resources. The Agency's net position are reported in three parts – investment in capital assets, restricted net position and unrestricted net position.

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

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an entity and the change in the Agency's net position 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, deferred outflows, liabilities, deferred inflows, 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.

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

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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, deferred outflows of resources, liabilities, deferred inflows of resources, 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. It should be noted that Funds 328 and 2017 (see below) did not meet this criterion but were deemed as major funds by the agency.

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 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.

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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.

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 three 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 - (#1053) – The purpose of this escrow account is to enable the Interstate Stream Commission to make available funds for the United

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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). The agency does not have authority to issue warrants.

Ute Dam Outlet Works Pipeline Replacement Project – (#1052)– 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. The agency has authority to issue warrants through this fund.

Rio Grande Floodway Escrow (#1178) – This fund was established to account for the activity in the Rio Grande Floodway escrow account per the Memorandum of Agreement between the Agency and the U.S. Army Corps of Engineers. The project includes the design, construction, and construction management of the Rio Grande Floodway, San Acacia to Bosque del Apache Unit. The fund is authorized by Section 72-14-28, NMSA, 1978 Compilation. The Agency has authority to issue warrants through this fund.

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 position, 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.

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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.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 Position, "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, 2013. 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.

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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 Position. Interfund receivable and payables are presented at net amounts for each fund.

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

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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.

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. The current portion of the compensated absences debt is estimated based on historical trends.

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

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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 position. Net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position *investment in capital assets* represents the historical cost of assets or fair value on date of receipt less accumulated depreciation on those assets. Net position is 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 position is all other net position that do not meet the definition of *restricted* or *investment 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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized until then.

15. 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 both state and federal governments for capital projects.

I. Budgets and Budgetary Accounting

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

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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, 2013.
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 2013, 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	\$ 8,185,749	-
State Treasurer	550-864	2,677,190	10,862,938
International Bank - Cimarron	Demand	-	-
Petty Cash	on site	125	125
Total - General Fund		<u>10,863,063</u>	<u>10,863,063</u>
Irrigation Works Construction Fund			
State Treasurer	550-326	2,816,000	2,816,000
Improvement of the Rio Grande Fund			
State Treasurer	550-328	5,287,868	5,287,868
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	556,512	556,512
Pecos River Basin Land Management Fund			
State Treasurer	550-686	583,347	583,347
STB Capital Outlay Fund			
State Treasurer	550-892	9,996,164	9,996,164
Arizona Settlement Fund			
State Treasurer	550-3081	17,525,519	17,525,519
Indian Water Rights Settlement Fund			
State Treasurer	550-2017	1,189,410	1,189,410
General Fund Capital Outlay			
State Treasurer	550-931	<u>11,958</u>	<u>11,958</u>
Total governmental funds		\$ <u>48,851,696</u>	<u>48,851,696</u>
<u>Fiduciary Accounts</u>			
Irrigation Fee Suspense Fund			
State Treasurer	550-849	\$ 29,607	29,607
Ute Dam Outlets - Wells Fargo*	Demand	16,500	16,500
US Army Corps of Engineers - Wells Fargo*	Demand	252,337	252,337
US Army Corps of Engineers - Wells Fargo*	Demand	<u>300,000</u>	<u>300,000</u>
Total fiduciary funds		\$ <u>598,444</u>	<u>598,444</u>

* 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 has the power to invest money held in demand deposits and not immediately needed for the

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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 or 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,
- (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

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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.

Beginning January 1, 2013, noninterest-bearing transaction accounts will no longer be insured separately from depositors' other accounts at the same FDIC-insured depository institutions (IDI) instead, noninterest-bearing transaction accounts will be added to any of a depositors' other accounts in the applicable ownership category and the aggregate balance insured up to at least the Standard Maximum Deposit Insurance Amount of \$250,000 per depositor, at each separately chartered IDI. See the FDIC website at www.fdic.gov/deposit/deposits/unlimited_expiration.html, for more information. As of June 30, 2013, the Agency's fiduciary accounts were exposed to custodial risk as follows:

<u>Fund No.</u>	<u>Account Name</u>	<u>Wells Fargo</u>
1052	Ute Dam Outlets	\$ 16,500
1053	US Army Corps of Engineers	252,337
1178	US Army Corps of Engineers	<u>300,000</u>
	Total bank balance	568,837
	Less: FDIC coverage	<u>(250,000)</u>
	Uninsured public funds	<u>\$ 318,837</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

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“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 diagnostic report revealed that the State of New Mexico’s General Fund Investment Pool has not been reconciled since the implementation of the Statewide Human resources, Accounting, and management REporting system (SHARE) in July of 2006. The Department of Finance and Administration (DFA) has commissioned two reports that address statewide cash reconciliation issues. They are (1) *Current State of Diagnostic of Cash Controls*, dated June 20, 2012 prepared by Deloitte Consulting, LLP and (2) *Cash Management Plan and Business Processes*, dated October 11, 2012, also prepared by Deloitte Consulting, LLP. The Diagnostic reports are available in the Resources section of the Cash Control page of the NM DFA’s website : nmdfa.state.nm.us/Cash_Control.aspx.

DFA 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. 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.

Per the directive issued by the Office of the State Auditor on October 31, 2012, a note disclosure relating to this issue is required for all State of New Mexico state agencies for financial statements issued for fiscal year ended June 30, 2013.

That directive instructed agencies to do the following:

1. Explain to the agency’s IPA what policies and procedures the agency has in place to ensure that the agency’s cash balances in SHARE are correct; and
2. Disclose to the IPA any communications with DFA Cash Control Bureau regarding monthly cash reconciliation issues including unreconciled items, errors and corrections submitted; and
3. Disclose in the agency notes to the financial statements the facts about the statewide cash reconciliation at the end of the fiscal year, and what the agency’s policies and procedures were during the fiscal year ended 2013 to mitigate the risk that the agency’s cash balances would be misstated as of June 30, 2013.

The Agency has provided copies of the referenced diagnostic reports to the IPA. The Agency has also explained and provided copies to the IPA what policies and procedures are in place that ensures that the cash balances in SHARE are correct to the extent that the Agency has control (i.e. collection, depositing, reconciling, bank statement validation, and documentation of

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outstanding reconciling items) of the cash it receipts and transfers to the state general fund and other state agencies pursuant to state statute.

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 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, 2013:

	Irrigation Works Construction Fund (326)		Improvement of the Rio Grande Fund (328)	
	Units	Market Value	Units	Market Value
Large Cap Active Pool	3,650	\$ 10,934,902	239	\$ 715,756
Core Bond Pool	2,813	7,604,668	269	726,589
Total investments		\$ 18,539,570		\$ 1,442,345

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

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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 2013:

	Irrigation Works Construction Fund (326)	Improvement of the Rio Grande Fund (328)	New Mexico Unit Fund (3081)
Interest and dividends on investments and cash deposits	\$ 490,091	41,255	-
Realized gain (loss) on sale of investments	617,055	41,457	-
Increase (decrease) in fair value of investments	841,854	51,239	-
Management fee expense	(52,564)	(3,892)	-
Interest on investments at STO	20,821	15,122	26,856
Distribution of investment earnings from LGPF	5,827,107	1,335,020	-
Investment earnings	\$ 7,744,364	1,480,201	26,856

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.

L. Prepaid Expenses

The agency is implementing a new Water Rights Business Process Management System, and the prepaid amount of \$430,000 as of June 30, 2013, 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. The agency also entered into a mapping software licensing contract, with Environmental Systems Research, with a prepaid amount of \$315,000 as of June 30, 2013, representing approximately 69% of the total cost of the software licenses and training for this program. This cost will be expensed over a 36 month period, of which 25 months is prepaid. The total amount of the agencies prepaid expense as of June 30, 2013 is \$745,000.

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, 2013, the allowance had a balance of \$25,773. This balance increased by \$847 during the fiscal year ended June 30, 2013, and no amounts previously written-off were recovered during the year.

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N. Loan Receivables

As of June 30, 2013, the Agency had \$1,592,197 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, 2013.

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 installment of \$9.04 million was received by the agency during the fiscal year ended June 30, 2013, and the agency recorded a receivable of \$55,759,198 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, 2013, 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>
				\$ 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	9,040,000	7,114,458	1,925,542	24,088,613
2019-2021	<u>27,120,000</u>	<u>24,088,614</u>	<u>3,032,381</u>	-
	<u>\$ 72,320,000</u>	<u>55,759,198</u>	<u>16,561,797</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:

	2012	Additions	Deletions	Reclass- ifications	2013
Capital assets not depreciated:					
Water rights & land	\$ 74,931,473	-	(65,700)	-	74,865,773
Land held for sale	60,000	-	-	-	60,000
Construction works-in-progress	988,745	341,674	-	-	1,330,419
Total capital assets not depreciated	<u>75,980,218</u>	<u>341,674</u>	<u>(65,700)</u>	<u>-</u>	<u>76,256,192</u>
Capital assets depreciated:					
Infrastructure	38,091,653	-	-	-	38,091,653
Buildings and structures	23,099	-	-	-	23,099
Furniture and fixtures	453,683	186,425	-	-	640,108
Machinery and equipment	3,599,876	134,046	(34,145)	-	3,699,777
Leasehold improvement	43,184	-	-	-	43,184
Vehicles	36,463	-	-	-	36,463
Total capital assets being depreciated	<u>42,247,958</u>	<u>320,471</u>	<u>(34,145)</u>	<u>-</u>	<u>42,534,284</u>
Total capital assets	<u>118,228,176</u>	<u>662,145</u>	<u>(99,845)</u>	<u>-</u>	<u>118,790,476</u>
Less accumulated depreciation:					
Infrastructure	(10,734,210)	(1,031,733)	-	-	(11,765,943)
Buildings and structures	(20,076)	(242)	-	-	(20,318)
Furniture and fixtures	(432,154)	(19,731)	-	-	(451,885)
Machinery and equipment	(3,402,575)	(94,903)	34,145	-	(3,463,333)
Leasehold improvement	(32,388)	(5,398)	-	-	(37,786)
Vehicles	(33,231)	(1,293)	-	-	(34,524)
Total accumulated depreciation	<u>(14,654,634)</u>	<u>(1,153,300)</u>	<u>34,145</u>	<u>-</u>	<u>(15,773,789)</u>
Net capital assets	<u>\$ 103,573,542</u>	<u>(491,155)</u>	<u>(65,700)</u>	<u>-</u>	<u>103,016,687</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 \$1,153,300 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 2013 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:

	Balance 2012	Additions	Reclass- ification	Balance 2013	Estimated Date of Completion / Project Cost
Mimbres Metering Stations	\$ 430,818	-	-	430,818	FY14 / \$800,000
Rio Chama Metering Stations	557,927	-	-	557,927	FY14 / \$850,000
Seven Rivers Electric Upgrade & Water Level Measurement System	-	285,000	-	285,000	FY14 / \$485,000
Lake Arthur Well Field Upgrade 2013	-	56,674	-	56,674	FY14 / \$130,000
	<u>\$ 988,745</u>	<u>341,674</u>	<u>-</u>	<u>1,330,419</u>	

Q. Lease Commitments

Buildings and Structures

The Agency leases office space at seven 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 \$1,275,041 for the year ended June 30, 2013.

Machinery & Equipment

The Agency leases twenty-seven 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, including maintenance charges of the equipment, were \$153,882 for the year ended June 30, 2013.

Vehicles

The Agency leases 66 vehicles on an annual basis from the New Mexico General Services Department. Lease expenditures under the leases were \$118,648 for the year ended June 30, 2013.

Rio Grande Water Rights

The Agency entered into a ten year lease for surface water rights necessary to fulfill a statutory mandate. Lease expenditures under this agreement were \$77,106 for the year ended June 30, 2013. Future lease payments will fluctuate and are dependent on the number of water rights leased and amounts adjusted for inflation.

Future minimum lease payments are:

For the Year Ended June 30		Building & Structures	Machinery Equipment	Rio Grande Water Rights	Total
2014	\$	661,576	78,661	77,954	818,191
2015		623,071	40,085	78,812	741,968
2016		623,002	12,858	79,679	715,538
2017		490,765	3,030	80,555	574,350
2018		488,739	-	81,441	570,180
2019-2021		400,677	-	165,580	566,257
Total	\$	<u>3,287,831</u>	<u>134,634</u>	<u>564,020</u>	<u>3,986,485</u>

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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.

R. Long-Term Liabilities

Compensated Absences

Long-term liability activity related to compensated absences for the year ended June 30, 2013 was as follows:

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>	<u>Due Within One Year</u>
Compensated absences	\$ 1,096,712	988,553	(993,441)	1,091,824	1,091,824

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

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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 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, 2013. 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		<u>130,040,000</u>
Total estimated costs	\$	<u><u>1,736,084,000</u></u>

The agency estimates that the State of New Mexico will receive a credit towards its cost share of about \$31 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, 2013, the agency expended an additional \$5.2 million of the total of \$25 million in state funding received to-date restricted for the Indian Water Rights Settlement agreements, with \$11.2 million unexpended as of June 30, 2013. The Agency was appropriated an additional \$10 million during the fiscal year, but the funds had not been received prior to the end of the fiscal year.

The agency has recorded, as a special item, the estimated settlement expense in the government-wide financial statements, of \$75.2 million, as of June 30, 2013. Detail of activity for this long-term liability for the year ended June 30, 2013 is as follows:

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>2013</u>	Due Within One Year
Indian Water						
Rights Settlement	\$ 91,400,000	-	(5,210,590)	(10,975,000)	<u>75,214,410</u>	-

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 2013 are as follows:

Transfers to:	Transfers from:				Total
	30810	32600	32800	General Fund	
General Fund \$	185,999	15,059,518	1,723,356	-	16,968,873
32600	-	-	-	235	235
\$	<u>185,999</u>	<u>15,059,518</u>	<u>1,723,356</u>	<u>235</u>	<u>16,969,108</u>

The purposes for the transfers are as follows:

Amount	Fund		Purpose
	From:	To:	
	General		
\$ 235	Fund	32600	Reversion of expenditure refund
185,999	30810	General Fund	Transfer to fund where expenditures budgeted
15,059,518	32600	General Fund	Transfer to fund where expenditures budgeted
1,723,356	32800	General Fund	Transfer to fund where expenditures budgeted
\$ <u>16,969,108</u>			

Interfund receivables/payables are as follows:

Due to:	Due from:					Total
	General Fund	26700	32600	32800	30810	
General Fund \$	-	323,379	3,538,325	574,537	11,745	4,447,986
26700	119	-	-	-	-	119
32600	235	-	-	-	-	235
\$	<u>354</u>	<u>323,379</u>	<u>3,538,325</u>	<u>574,537</u>	<u>11,745</u>	<u>4,448,340</u>

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, 2013 are:

General Fund Transfers	Out	In	Reason
Department of Game & Fish GPF #198	-	182,300	Ute Lake & Eagle Nest Lake MOU
New Mexico Finance Authority	-	3,041,593	Water Projects Fund
State General Fund Appropriation #853	-	22,176,900	General and Special Appropriations
State General Fund Appropriation #853	3,178	-	Reversions of unexpended appropriations
Department of Game & Fish GPF #198	62,620	-	Ute Lake & Eagle Nest Lake FY13 Reversion
Administrative Office of the Courts #512	608,319	-	Water Project Funds 72-4A-9 NMSA 1978
	<u>674,116</u>	<u>25,400,793</u>	

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Fund 26700 Transfers	Out	In	Reason
Severance Tax Bonds - proceeds	-	1,605,667	Drawdowns
Fund 32500 Transfers	Out	In	Reason
Energy, Minerals & Natural Resources	55,024	-	MOA Ute Lake Boat Dock Fees Transfer
Fund 89200 Transfers	Out	In	Reason
Severance Tax Bonds - proceeds	-	3,990,243	Drawdowns
Fund 93100 Transfers	Out	In	Reason
State General Fund Appropriation #853	10,613	-	Reversions of unexpended appropriations

U. Due to/from Other Agencies

The following amounts are due to/from other agencies:

Amount Due From Other Agencies		Due From	
SHARE Fund No.	Amount	SHARE Fund No.	Amount
CPF #26700	\$ 33,507	DFA #10920	\$ 19,019
		DFA #10740	14,489
			\$ 33,507
NMUF #30810	\$ 1,540	STO #80100	\$ 1,540
IWCF #32600	\$ 480,881	STO #80100	\$ 437
		SIC #60100	480,445
			\$ 480,881
IRGIF #32800	\$ 110,074	STO #80100	\$ 459
		SIC #60100	109,615
			\$ 110,074
STB #89200	\$ 624,387	DFA #10740	\$ 138,936
		DFA #10920	3,836
		DFA #11160	481,615
			\$ 624,388
Total	\$ 1,250,389		\$ 1,250,390
Amount Due To Other Agencies		Due From	
SHARE Fund No.	Amount	SHARE Fund No.	Amount
Game & Fish #198	\$ 62,620	GF #21400	\$ 62,620
Total	\$ 62,620		\$ 62,620

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)	Capital Projects Fund (931)	Total
Due for reversions	\$ 3,178	2	10,613	13,793
State dated warrants	-	-	-	-
Amounts collected on behalf of the State of New Mexico	<u>320,530</u>	<u>-</u>	<u>-</u>	<u>320,530</u>
Total	<u>\$ 323,708</u>	<u>2</u>	<u>10,613</u>	<u>334,323</u>

W. Fund Balance and Net Position

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, 2013, follows:

General Fund (214, 864):	Restricted	Committed
Emergency Drought Water Agreement	\$ -	2,680,568
Adjudications	-	867,358
Strategic Water Reserve	-	590,673
Water litigation on interstate streams	-	6,480,803
Regional and State water plans	-	395,033
Transfer to the Irrigation Works Construction Fund	-	500,000
Private grant	<u>15,000</u>	<u>-</u>
	<u>15,000</u>	<u>11,514,435</u>
Irrigation Works Construction Fund (326):		
Water conservation	<u>-</u>	<u>18,477,717</u>
Improvement of the Rio Grande Fund (328):		
Water conservation	<u>-</u>	<u>6,265,750</u>
Indian Water Rights Settlement Fund (2017):		
Public works - Indian Water Rights Settlement	<u>-</u>	<u>1,189,410</u>
New Mexico Unit Fund (3081):		
Public works - Arizona Water Settlement	<u>-</u>	<u>17,179,404</u>
STB Capital Outlay Fund (892):		
Public works - Indian Water Rights Settlement	<u>-</u>	<u>9,518,386</u>
Other funds:		
Interstate water compliance	-	578,745
Dam construction and operations	-	497,218
Public works capital outlay	<u>-</u>	<u>21,856</u>
	<u>\$ -</u>	<u>1,097,819</u>

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The government-wide statement of net position reports \$67,567,198 of restricted net position, 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, 2013 are presented as net position reserved for subsequent year expenditure. Restricted net position at June 30, 2013 is a result of the following:

Fund 686: Restricted for Pecos River Basin Land Management by statute (72-1-2-5, NMSA 1978)	\$ <u>578,745</u>
Funds 324/325: Restricted for Ute Dam Operating/Construction by statute (72-14-36 and 37, NMSA 1978)	<u>519,074</u>
Fund 326: Restricted for loans-restricted by third parties and statute (72-14-29, NMSA 1978)	<u>1,564,277</u>
Fund 326: Restricted for investigation and construction of water conservation projects-restricted by statute (72-14-23, NMSA 1978)	<u>18,477,717</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>6,265,750</u>
Fund 3081: Restricted for AZ Water Settlement - Gila Region	<u>17,179,404</u>
Fund 2017: Restricted for Indian Water Rights Settlement	<u>1,189,410</u>
<u>Restricted for subsequent year expenditure:</u>	
Fund 892: Restricted for Capital Outlay/ Indian Water Rights Water Litigation (Laws of 2013, Ch. 227, Sect. 5, Item 44)	9,518,387 6,480,803
Regional and State water plans (Laws of 2013, Ch. 227, Sect. 5, Item 45)	395,033
Transfer to the Irrigation Works Construction Fund (Laws of 2013, Ch. 227, Sect. 5, Item 46)	500,000
Prepaid expense	745,000
Emergency Drought Water Agreement (Laws of 2012, Ch. 19, Sect. 4)	2,680,568
Adjudications (72-4A-9, NMSA 1978)	867,356
Strategic Water Reserve (72-14-3.3, NMSA 1978)	590,673
Private grant	<u>15,000</u>
Total restricted net assets	\$ <u><u>67,567,198</u></u>

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X. Deferred Inflows/Outflows of Resources

The balance in deferred inflows/outflows of resources at year end is composed of the following elements:

<u>Deferred Inflows of Resources</u>	
General Fund - Receivables recorded/revenue is not available	\$ 142,635
Fund 326 - Receivables recorded/revenue is not available	63,065
Fund 892 - Receivables recorded/revenue is not available	481,614
Fund 3081 - Settlement due from federal gov./revenue is not available	<u>55,759,198</u>
	<u>\$ 56,446,512</u>

<u>Deferred Outflows of Resources</u>	
Fund 3081 - Deferred settlement revenue/revenue is not available	\$ <u>55,759,198</u>

<u>Deferred Inflows of Resources</u>	
General Fund - Receivables recorded/revenue is not available	\$ 142,635
Fund 326 - Receivables recorded/revenue is not available	63,065
Fund 892 - Receivables recorded/revenue is not available	481,614
Fund 3081 - Settlement due from federal gov./revenue is not available	<u>55,759,198</u>
	<u>\$ 56,446,512</u>

<u>Deferred Outflows of Resources</u>	
Fund 3081 - Deferred settlement revenue/revenue is not available	\$ <u>55,759,198</u>

Y. Deficit Unassigned Fund Balance

The General Fund shows a deficit unassigned fund balance as of June 30, 2013. The deficit is reconciled below:

<u>General fund (21400 & 86400)</u>	
Unassigned fund balance	(142,510)
Adjustment made for deferred inflow of grant revenue	<u>142,635</u>
	125
Petty Cash from Fund 21400	<u>125</u>
Difference	<u>\$ -</u>

Z. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. No funds that maintained a deficit fund balance as of June 30, 2013. See previous note.
- B. No funds exceeded approved budgetary authority for the year ended June 30, 2013.

AA. Concentrations

The Agency depends on financial resources flowing from, or associated with, both the

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Federal Government and the State of New Mexico. Because of this dependency, the Court is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

BB. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Agency recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Agency's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Agency has evaluated subsequent events through December 16, 2013, which is the date the financial statements were available to be issued.

Support of Operations

Appropriations from the Irrigation Works Construction Fund (#326) to support the operations of the agency have increased significantly over the past few years in lieu of General Fund appropriations. In fiscal year 2013, expenditures and transfers from the fund exceeded revenue and transfers into the fund by close to \$4.9 million. This difference is projected to increase to a little over \$7 million in fiscal year 2014. Unless steps are taken to decrease the proportion of Irrigation Works Construction Fund used to support agency operations, the fund will be fully depleted before the end of fiscal year 2016 at this rate of depletion. Consequently, the agency could be faced with significant budget reductions, drastically impacting both the agency's operations and its' ability to carry out the mission and statutory mandates.

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 16.99% 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, 2013, 2012 and 2011 were \$2,259,986, \$1,961,218 and \$2,400,230, respectively, and equal to the amount of the required contributions for each year.

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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 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

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service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. . In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Agency's contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$299,723, \$268,273 and \$263,301, 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.

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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.

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.

On September 23, 2003, New Mexico voters approved Constitutional Amendment No. 2 that changed the LGPF distributions. Beginning with the October 2003 distribution, the annual distributions from the LGPF are five percent (5.0 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years. In addition to the five percent (5.0 percent) annual distribution made, an additional annual distribution shall be made pursuant to the following schedule: in fiscal years 2005 through 2012, an amount equal to eight-tenths percent (0.8 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years; and in fiscal years 2013 through 2016, an amount equal to one-half percent (0.5 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years.

The legislature, by a three-fifths vote of the members elected to each house, may suspend any additional distributions noted above. No additional distribution shall be made in any fiscal year if the average of the year-end market values of the LGPF for the immediately preceding five calendar years is less than five billion eight hundred million dollars (\$5,800,000,000).

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.

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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 2013, the Agency received direct transfers of \$3,041,593 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 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 2013 includes:

Condensed Balance Sheet (unaudited) As of June 30, 2013	Condensed Statement of Activities (unaudited) For the Year Ended June 30, 2013
Assets	Revenues
Cash	Assessments
\$ 61,784	\$ 106,921
Total Assets	Interest
<u>61,784</u>	<u>18</u>
Liabilities	Total Revenues
Accounts payable	<u>106,939</u>
<u>38,258</u>	Expenses
Total Liabilities	Change in fund balance
<u>38,258</u>	<u>105,999</u>
Fund Balance	Change in fund balance
<u>23,526</u>	<u>940</u>
Total Liabilities	Beginning fund balance
and Fund Balance	<u>22,586</u>
<u>\$ 61,784</u>	Ending fund balance
	<u>\$ 23,526</u>

During fiscal year 2013, 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 2013, the Compact reimbursed the Agency for \$105,999 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, 2013

	Special Revenue Funds	Capital Projects Funds	Total Other Funds
ASSETS:			
Cash	-	-	-
State General Fund Investment Pool	1,161,715	11,958	1,173,673
Prepaid expenses	-	-	-
Receivables, net of allowance	124	-	124
Due from other funds	-	119	119
Due from other state agencies	-	33,507	33,507
Due from federal sources	-	306,924	306,924
Escrow deposits	-	-	-
Investments	-	-	-
Loan receivables, net of allowance	-	-	-
	<u>\$ 1,161,839</u>	<u>352,508</u>	<u>1,514,347</u>
LIABILITIES:			
Accounts payable	\$ 64,020	18,514	82,534
Accrued payroll	-	-	-
Payroll related liabilities	-	-	-
Due to other funds	-	323,379	323,379
Due to other state agencies	-	-	-
Deferred revenue	-	-	-
Due to State General Fund	-	10,615	10,615
Total liabilities	<u>64,020</u>	<u>352,508</u>	<u>416,528</u>
FUND BALANCE:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	1,097,819	-	1,097,819
Assigned	-	-	-
Unassigned	-	-	-
Total fund balance	<u>1,097,819</u>	<u>-</u>	<u>1,097,819</u>
Total liabilities and fund balance	<u>\$ 1,161,839</u>	<u>352,508</u>	<u>1,514,347</u>

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

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COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	Special Revenue Funds	Capital Projects Funds	Total Other Funds
Revenues:			
Federal funds	\$ -	352,766	352,766
Charges for services	55,775	-	55,775
Investment earnings (loss)	-	-	-
Miscellaneous revenue	56,617	-	56,617
Total revenues	112,392	352,766	465,158
Expenditures:			
Agriculture, Energy and Natural Resources			
Current:			
Personal services and benefits	-	-	-
Contractual services	202,665	1,920,497	2,123,162
Other costs	-	73,362	73,362
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay:	-	-	-
Total expenditures	202,665	1,993,859	2,196,524
Excess (deficiency) of revenue over expenditures	(90,273)	(1,641,093)	(1,731,366)
Other financing sources (uses)			
Sale of land	64,697	-	64,697
Transfers in (out):			
General obligation bond proceeds	-	-	-
Severance tax bond proceeds	-	1,605,668	1,605,668
State General Fund appropriations FY12	-	-	-
Interfund transfers in	-	-	-
Interagency transfers in	-	-	-
Interfund transfers (out)	-	-	-
Interagency transfers (out)	-	-	-
Reversions	(55,024)	(10,613)	(65,637)
Total other financing sources (uses):	9,673	1,595,055	1,604,728
Net change in fund balance	(80,600)	(46,038)	(126,638)
Fund balance, beginning	1,178,419	46,038	1,224,457
Fund balance, ending	\$ 1,097,819	-	1,097,819

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 SPECIAL REVENUE FUNDS
As of June 30, 2013

	324	325	686	Total
	Ute Dam	Ute Dam	Pecos	Special
	Operating	Construction	River Basin	Revenue
	Fund	Fund	Land Mgmt	Funds
	Fund	Fund	Fund	Funds
ASSETS:				
Cash	\$ -	-	-	-
State General Fund Investment Pool	21,856	556,512	583,347	1,161,715
Prepaid expenses	-	-	-	-
Receivables, net of allowance	-	124	-	124
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>556,636</u>	<u>583,347</u>	<u>1,161,839</u>
LIABILITIES:				
Accounts payable	\$ -	59,418	4,602	64,020
Accrued payroll	-	-	-	-
Payroll related liabilities	-	-	-	-
Due to other funds	-	-	-	-
Due to other state agencies	-	-	-	-
Unearned revenue	-	-	-	-
Due to State General Fund	-	-	-	-
Total liabilities	<u>-</u>	<u>59,418</u>	<u>4,602</u>	<u>64,020</u>
FUND BALANCE:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	21,856	497,218	578,745	1,097,819
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balance	<u>21,856</u>	<u>497,218</u>	<u>578,745</u>	<u>1,097,819</u>
Total liabilities and fund balance	<u>\$ 21,856</u>	<u>556,636</u>	<u>583,347</u>	<u>1,161,839</u>

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECT FUNDS
As of June 30, 2013

	267 Capital Projects Fund	931 GF Capital Outlay Fund	Total Capital Projects Funds
ASSETS:			
Cash	\$ -	-	-
State General Fund Investment Pool	-	11,958	11,958
Prepaid expenses	-	-	-
Receivables, net of allowance	-	-	-
Due from other funds	119	-	119
Due from other state agencies	33,507	-	33,507
Due from federal sources	306,924	-	306,924
Escrow deposits	-	-	-
Investments	-	-	-
Loan receivables, net of allowance	-	-	-
	<u>\$ 340,550</u>	<u>11,958</u>	<u>352,508</u>
LIABILITIES:			
Accounts payable	\$ 17,169	1,345	18,514
Accrued payroll	-	-	-
Payroll related liabilities	-	-	-
Due to other funds	323,379	-	323,379
Due to other state agencies	-	-	-
Deferred revenue	-	-	-
Due to State General Fund	2	10,613	10,615
Total liabilities	<u>340,550</u>	<u>11,958</u>	<u>352,508</u>
FUND BALANCE:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 340,550</u>	<u>11,958</u>	<u>352,508</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 SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2013

	324	325	686	Total
	Ute Dam	Ute Dam	Pecos	Special
	Operating	Construction	River Basin	Revenue
	Fund	Fund	Land Mgmt	Funds
	Fund	Fund	Fund	Funds
Revenues:				
Federal funds	\$ -	-	-	-
Charges for services	-	55,775	-	55,775
Investment earnings (loss)	-	-	-	-
Miscellaneous revenue	-	56,617	-	56,617
Total revenues	-	112,392	-	112,392
Expenditures:				
Agriculture, Energy and Natural Resources				
Current:				
Personal services and benefits	-	-	-	-
Contractual services	-	137,200	65,465	202,665
Other costs	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay:	-	-	-	-
Total expenditures	-	137,200	65,465	202,665
Excess (deficiency) of revenue over expenditures	-	(24,808)	(65,465)	(90,273)
Other financing sources (uses)				
Sale of land	-	-	64,697	64,697
Transfers in (out):				
General obligation bond proceeds	-	-	-	-
Severance tax bond proceeds	-	-	-	-
State General Fund appropriations FY13	-	-	-	-
Interfund transfers in	-	-	-	-
Interagency transfers in	-	-	-	-
Interfund transfers (out)	-	-	-	-
Interagency transfers (out)	-	-	-	-
Reversions	-	(55,024)	-	(55,024)
Total other financing sources (uses):	-	(55,024)	64,697	9,673
Net change in fund balance	-	(79,832)	(768)	(80,600)
Fund balance, beginning	21,856	577,050	579,513	1,178,419
Fund balance, ending	\$ 21,856	497,218	578,745	1,097,819

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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, 2013

	267 Capital Projects Fund	931 GF Capital Outlay Fund	Total Capital Projects Funds
Revenues:			
Federal funds	\$ 352,766	-	352,766
Charges for services	-	-	-
Investment earnings (loss)	-	-	-
Miscellaneous revenue	-	-	-
Total revenues	<u>352,766</u>	<u>-</u>	<u>352,766</u>
Expenditures:			
Agriculture, Energy and Natural Resources			
Current:			
Personal services and benefits	-	-	-
Contractual services	1,920,497	-	1,920,497
Other costs	37,937	35,425	73,362
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay:	-	-	-
Total expenditures	<u>1,958,434</u>	<u>35,425</u>	<u>1,993,859</u>
Excess (deficiency) of revenue over expenditures	<u>(1,605,668)</u>	<u>(35,425)</u>	<u>(1,641,093)</u>
Other financing sources (uses)			
Sale of land	-	-	-
Transfers in (out):			
General obligation bond proceeds	-	-	-
Severance tax bond proceeds	1,605,668	-	1,605,668
State General Fund appropriations FY13	-	-	-
Interfund transfers in	-	-	-
Interagency transfers in	-	-	-
Interfund transfers out	-	-	-
Interagency transfers (out)	-	-	-
Reversions	-	(10,613)	(10,613)
Total other financing sources (uses):	<u>1,605,668</u>	<u>(10,613)</u>	<u>1,595,055</u>
Net change in fund balance	<u>-</u>	<u>(46,038)</u>	<u>(46,038)</u>
Fund balance, beginning	<u>-</u>	<u>46,038</u>	<u>46,038</u>
Fund balance, ending	<u>\$ -</u>	<u>-</u>	<u>-</u>

See independent auditors' report
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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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Charges for services	\$ -	-	55,775	55,775
Miscellaneous	-	-	56,617	56,617
Fund balance	-	120,000	-	(120,000)
Total revenues	<u>-</u>	<u>120,000</u>	<u>112,392</u>	<u>(7,608)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	160,000	160,000	137,200	22,800
Other	40,000	40,000	-	40,000
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>137,200</u>	<u>62,800</u>
Excess (deficiency) of revenues over expenditures	<u>(200,000)</u>	<u>(80,000)</u>	<u>(24,808)</u>	<u>55,192</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reversion	-	-	(55,024)	(55,024)
Change in fund balance	(200,000)	(80,000)	(79,832)	168
Fund balance, beginning of year	<u>577,050</u>	<u>577,050</u>	<u>577,050</u>	<u>-</u>
Fund balance, end of year	<u>\$ 377,050</u>	<u>497,050</u>	<u>497,218</u>	<u>168</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Sale of land	\$ -	-	64,697	64,697
Miscellaneous revenue	-	-	-	-
Fund balance	<u>371,414</u>	<u>580,841</u>	<u>-</u>	<u>(580,841)</u>
Total revenues	<u>371,414</u>	<u>580,841</u>	<u>64,697</u>	<u>(516,144)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	140,870	350,297	65,465	284,832
Other	<u>230,544</u>	<u>230,544</u>	<u>-</u>	<u>230,544</u>
Total expenditures	<u>371,414</u>	<u>580,841</u>	<u>65,465</u>	<u>515,376</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(768)</u>	<u>(768)</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	-	-	(768)	(768)
Fund balance, beginning of year	<u>579,513</u>	<u>579,513</u>	<u>579,513</u>	<u>-</u>
Fund balance, end of year	<u>\$ 579,513</u>	<u>579,513</u>	<u>578,745</u>	<u>(768)</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Bond proceeds	\$ 41,098,794	41,252,473	3,508,629	(37,743,844)
Total revenues	<u>41,098,794</u>	<u>41,252,473</u>	<u>3,508,629</u>	<u>(37,743,844)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	8,663,771	8,717,450	8,684,186	33,264
Other	32,435,023	32,535,023	306,057	32,228,966
Total expenditures	<u>41,098,794</u>	<u>41,252,473</u>	<u>8,990,243</u>	<u>32,262,230</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(5,481,614)</u>	<u>(5,481,614)</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	-	-	(5,481,614)	(5,481,614)
Fund balance, beginning of year	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000,000</u>	<u>-</u>
Fund balance, end of year	<u>\$ 15,000,000</u>	<u>15,000,000</u>	<u>9,518,386</u>	<u>(5,481,614)</u>

See independent auditors' report
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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, 2013

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Bond proceeds	2,225,305	2,225,305	1,605,667	(619,638)
Miscellaneous revenues	-	-	-	-
Federal funds	-	-	352,766	352,766
Fund balance	-	-	-	-
Total revenues	<u>2,225,305</u>	<u>2,225,305</u>	<u>1,958,433</u>	<u>(266,872)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	2,162,158	2,162,158	1,920,496	241,662
Other	63,147	63,147	37,937	25,210
Total expenditures	<u>2,225,305</u>	<u>2,225,305</u>	<u>1,958,433</u>	<u>266,872</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Bond proceeds				-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reversion	-	-	-	-
Change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous	\$ -	-	-	-
Fund balance	<u>46,038</u>	<u>46,038</u>	<u>-</u>	<u>(46,038)</u>
Total revenues	<u>46,038</u>	<u>46,038</u>	<u>-</u>	<u>(46,038)</u>
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	<u>46,038</u>	<u>46,038</u>	<u>35,425</u>	<u>10,613</u>
Total expenditures	<u>46,038</u>	<u>46,038</u>	<u>35,425</u>	<u>10,613</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(35,425)</u>	<u>(35,425)</u>
Other financing sources (uses)				
Operating transfers in	-	58,142	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>58,142</u>	<u>-</u>	<u>-</u>
Reversion	-	-	(10,613)	(10,613)
Change in fund balance	-	58,142	(46,038)	(104,180)
Fund balance, beginning of year	<u>46,038</u>	<u>46,038</u>	<u>46,038</u>	<u>-</u>
Fund balance, end of year	<u>\$ 46,038</u>	<u>104,180</u>	<u>-</u>	<u>(104,180)</u>

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The accompanying notes are an integral part of these financial statements

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, 2013

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	-	20,000	20,000
Fund balance	-	-		-
Total revenues	-	-	20,000	20,000
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	20,000	20,000
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Reversion	-	-	-	-
Change in fund balance	-	-	20,000	20,000
Fund balance, beginning of year	3,279,650	3,279,650	3,279,650	-
Fund balance, end of year	\$ 3,279,650	3,279,650	3,299,650	20,000

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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, 2013

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Irrigation Fees Suspense Fund (849)				
Assets				
Cash and investments	\$ 29,607	-	-	29,607
Total assets	\$ 29,607	-	-	29,607
Liabilities				
Water rights protest hearing/other deposits	\$ 29,607	-	-	29,607
Total liabilities	\$ 29,607	-	-	29,607
United States Army Corps of Engineers (1053)				
Assets				
Cash and investments	\$ 252,236	101	-	252,337
Total assets	\$ 252,236	101	-	252,337
Liabilities				
Deposits held in custody for others	\$ 251,057	101	-	251,158
Accounts payable	1,179	-	-	1,179
Total liabilities	\$ 252,236	101	-	252,337
Ute Dam Outlet Works Pipeline Replacement Project (1052)				
Assets				
Cash and investments	\$ 16,493	7	-	16,500
Total assets	\$ 16,493	7	-	16,500
Liabilities				
Deposits held in custody for others	\$ 16,493	7	-	16,500
Total liabilities	\$ 16,493	7	-	16,500
Rio Grande Floodway Fund (1178)				
Assets				
Cash and investments	\$ -	300,000	-	300,000
Total assets	\$ -	300,000	-	300,000
Liabilities				
Deposits held in custody for others	\$ -	300,000	-	300,000
Total liabilities	\$ -	300,000	-	300,000
Total				
Assets				
Cash and investments	\$ 298,336	300,108	-	598,444
Total assets	\$ 298,336	300,108	-	598,444
Liabilities				
Water rights protest hearing/other deposits	\$ 29,607	-	-	29,607
Accounts payable	1,179	-	-	1,179
Deposits held in custody for others	267,550	300,108	-	567,658
Total liabilities	\$ 298,336	300,108	-	598,444

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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, 2013

<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	\$ 5,700
New Mexico Water Use Census	15.530	R11AP40038	50,805
New Mexico Fix-A-Leak	15.530	R11AP40043	<u>2,099</u>
			58,604
Desert and Sothern Rockies Landscape Concervation Cooperatives	15.557	R12AP80914	26,527
Water Conservation - Designing a Water Leasing Market for Mimbres River	15.507	R09AP32018	41,172
Operations & Maintenance - Los Lunas Silvery Minnow Refugium	15.517	R08AP402803	243,531
Operations & Maintenance - Los Lunas Silvery Minnow Refugium	15.517	R12AP40035	<u>27,860</u>
			271,391
Rio Rancho Open Space Habitat Restoration	*	15.537	R11AP40092
			<u>352,766</u>
Total U.S. Department of Interior			750,460
U.S. Department of Homeland Security			
Federal Emergency Management Agency			
Dam Safety & Security	97.041	2012-GR-00065	30,395
Dam Safety & Security	97.041	2011-GR-00002	<u>30,474</u>
			60,869
Total federal awards expended			\$ 811,329

Reconciliation of federal awards expended to federal revenues:

Federal revenues per governmental fund financial statements	\$ 677,717
Federal expenditures per SEFA	<u>811,329</u>
Difference is due to federal grants expended in FY13 but deferred as revenue in the fund financial statements due to availability	<u><u>(133,612)</u></u>

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, 2013

<u>Type</u>	<u>Measure</u>	<u>FY13 Target Level</u>	<u>FY13 Year-End Result</u>	<u>Met Target</u>
<u>Water Resource & Allocation Program:</u>				
Output	Average number of unprotested new and pending applications processed per month	65	32.33	No
Explanatory	Number of unprotested and unaggrieved water right applications backlogged	650	1332	No
Outcome	Number of dams inspected per year and notices delivered to owners notifying of potential problems	100	93	No
Outcome	Number of transactions abstracted annually into the water administration technical engineering resource system database	23,000	22,331	No
<u>Interstate Stream Commission</u>				
Outcome	Cumulative state-line delivery credit per the Pecos River Compact and amended decree at the end of calendar year, in acre-feet	≥ 0	102,000	Yes
Outcome	Rio Grande River Compact accumulated delivery credit or deficit at end of calendar year, in acre-feet	≥ 0	3,000	Yes
<u>Litigation and Adjudication Program:</u>				
Outcome	Number of offers to defendants in adjudications	800	501	No
Outcome	Percent of all water rights that have judicial determinations	52%	54%	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, 2013

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 Water litigation with the State of Texas	Interstate Stream Commission/ Office of the Attorney General of NM	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
4 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
5 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 (to be provided by San Miguel for water master expenses)	N/A	ISC	Both Entities
6 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
7 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
8 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
9 Continued Development of the Upper Rio Grande Water Operation 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 Operation Model	10/12/2007 10/12/2012	\$ 50,000.00 Annually	\$ 50,000.00	All Entities	All Entities
10 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 6/12/2018	\$ 100 per acre foot	N/A	Both Entities	Both Entities
11 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
12 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
13 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
14 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
15 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

**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, 2013**

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
16 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
17 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	\$ 65,000	\$ 65,000	Both Entities	Both Entities
18 Water Litigation	Interstate Stream Commission/ Office of the Attorney General of NM	Interstate Stream Commission	Water Litigation	4/18/2013 6/30/2015	\$ 3,000,000	\$ -	Both Entities	Both Entities
19 Geologic Mapping	Office of the State Engineer/ NM Bureau of Geology	Office of the State Engineer/ WRAP	Geologic mapping	2/20/2013 6/30/2013	\$ 22,387	\$ 22,387	Both Entities	Both Entities
20 Rio Grande Salinity Project	Interstate Stream Commission/ NM Environment Department	Interstate Stream Commission	Rio Grande Salinity Project	8/23/2012 6/30/2013	\$ 20,000	\$ 20,000	Both Entities	Both Entities
21 Geologic Mapping San Agustin Plains	Office of the State Engineer/ NM Bureau of Geology	Office of the State Engineer/ WRAP	Geologic mapping of San Agustin Plains	2/19/2013 6/30/2013	\$ 22,387	\$ 22,387	Both Entities	Both Entities
22 Reducing Energy	Interstate Stream Commission/ California Polytechnic State	Interstate Stream Commission	Reducing Energy	1/23/2013 6/30/2014	\$ 50,000	\$ 50,000	Both Entities	Both Entities
23 Burros Project	Interstate Stream Commission/ Grant Soil/Water Conservation	Interstate Stream Commission	Document avian use, threat or endangered species	12/19/2012 6/30/2013	\$ 25,000	\$ 25,000	Both Entities	Both Entities
24 Watershed Study	Interstate Stream Commission/ Grant Soil/Water Conservation	Interstate Stream Commission	Watershed Project	12/19/2012 6/30/2013	\$ 5,000	\$ 5,000	Both Entities	Both Entities
25 Water Resource Management	Interstate Stream Commission/ UNM	Interstate Stream Commission	Water Resource Management	10/10/2012 12/31/2012	\$ 314,845	\$ 115,487	Both Entities	Both Entities
26 Colorado River Basin Study	Interstate Stream Commission/ US Bureau of Reclamation	Interstate Stream Commission	Colorado River Basin Study	6/4/2013 1/31/2014	\$ 71,429	\$ 71,429	Both Entities	Both Entities
27 Protect State Water Supply	Interstate Stream Commission/ Town of Silver City	Interstate Stream Commission	Protect State Water Supply	5/16/2013 6/30/2014	\$ 50,000	\$ 50,000	Both Entities	Both Entities
28 Tower/Weather Data	Office of the State Engineer/ Regents of NM State	Office of the State Engineer/ WRAP	Tower/Weather Data	12/18/2012 6/30/2015	\$ 44,245	\$ 44,245	Both Entities	Both Entities
29 Water Modification Program	Interstate Stream Commission	Interstate Stream Commission	Water Modification Program	1/14/2013 9/30/2017	\$ 15,000	\$ 15,000	Both Entities	Both Entities

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For The Year Ended June 30, 2013

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumbered Balances
Fund 267						
Special, Deficiency, Specific and Capital Outlay Appropriations						
Laws of 2009, Chapter 5, Section 2, Subsection B	A093002	\$ 1,000,000	07/01/2009-06/30/2013	1,000,000	-	-
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 48	A093790	850,000	07/01/2009-06/30/2013	278,532	-	571,468
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 49	A093791	482,750	07/01/2009-06/30/2013	482,750	-	-
Laws of 2009 1st SS, Chapter 7, Section 3, Subsection 64	A093803	371,122	07/01/2009-06/30/2013	348,163	-	22,959
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 109	A093843	50,000	07/01/2009-06/30/2013	50,000	-	-
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
Total Capital Outlay Appropriations - Fund 267		2,863,872		2,244,235	-	619,637
Total unexpended balance						\$ 619,637
Reconciliation to fund balance (267)						
1) Less: Severance tax bond - revenue accrued on reimbursement basis						(619,637)
Fund balance after reconciling items						-
Fund balance per financial statements						-
Difference						\$ -
FUND 892 STB Capital Outlay						
Laws of 2011, Chapter 183, Section 116	A083081	3,199,862	07/01/2011-06/30/2013	3,199,862	-	-
Laws of 2013, Chapter 202, Section 9	A093122	3,993,070	06/01/2012-06/30/2015	-	-	3,993,070
Laws of 2010, Chapter 105, Section 18(A), Subsection 9	A101116	200,000	07/01/2010-06/30/2014	120,415	50,951	28,634
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	19,704	1,766	3,530
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	75,453	40,548	-
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	34,968	15,032	-
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	35,000	-	-
Laws of 2010 2nd S.S., Chapter 4, Section 7	A101282	1,000,000	07/01/2011-06/30/2014	987,044	-	12,956
Laws of 2011, Chapter 5, Section 16	A111303	15,000,000	07/01/2011-06/30/2016	5,000,000	-	10,000,000
Laws of 2012, Chapter 64, Section 10, Subsection 3	A121334	100,000	06/01/2012-06/30/2016	-	100,000	-
Laws of 2012, Chapter 64, Section 10, Subsection 4	A121335	200,000	06/01/2012-06/30/2016	200,000	-	-
Laws of 2012, Chapter 64, Section 15, Subsection 1	A121394	50,000	06/01/2012-06/30/2016	-	50,000	-
Laws of 2012, Chapter 64, Section 15, Subsection 2	A121395	60,000	06/01/2012-06/30/2016	-	-	60,000
Laws of 2012, Chapter 64, Section 15, Subsection 3	A121396	30,000	06/01/2012-06/30/2016	-	30,000	-

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
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Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumbered Balances
FUND 892 STB Capital Outlay, continued						
Laws of 2012, Chapter 64, Section 15, Subsection 6	A121397	30,000	06/01/2012-06/30/2016	5,400	24,600	-
Laws of 2012, Chapter 64, Section 15, Subsection 8	A121398	9,000	06/01/2012-06/30/2016	8,100	900	-
Laws of 2012, Chapter 64, Section 15, Subsection 9	A121399	10,000	06/01/2012-06/30/2016	-	10,000	-
Laws of 2012, Chapter 64, Section 15, Subsection 10	A121400	100,000	06/01/2012-06/30/2016	-	-	100,000
Laws of 2013, Chapter 202, Section 33	A121401	15,000	06/01/2012-06/30/2016	-	-	15,000
Laws of 2012, Chapter 64, Section 15, Subsection 12	A121402	60,000	06/01/2012-06/30/2016	32,102	27,898	-
Laws of 2012, Chapter 64, Section 15, Subsection 13	A121403	33,000	06/01/2012-06/30/2016	-	33,000	-
Laws of 2012, Chapter 64, Section 15, Subsection 16	A121404	20,000	06/01/2012-06/30/2016	18,778	1,222	-
Laws of 2012, Chapter 64, Section 15, Subsection 20	A121405	100,000	06/01/2012-06/30/2016	99,917	83	-
Laws of 2012, Chapter 64, Section 15, Subsection 22	A121406	56,000	06/01/2012-06/30/2016	-	56,000	-
Laws of 2012, Chapter 64, Section 15, Subsection 25	A121407	50,000	06/01/2012-06/30/2016	-	50,000	-
Laws of 2012, Chapter 226, Section 21, Subsection 1	A131420	125,000	06/01/2013-06/30/2017	-	-	125,000
Laws of 2012, Chapter 226, Section 21, Subsection 2	A131421	2,700,000	06/01/2013-06/30/2017	-	-	2,700,000
Laws of 2012, Chapter 226, Section 21, Subsection 3	A131422	20,000	06/01/2013-06/30/2017	-	-	20,000
Laws of 2012, Chapter 226, Section 21, Subsection 3	A131423	100,000	06/01/2013-06/30/2017	-	-	100,000
Laws of 2012, Chapter 226, Section 21, Subsection 5	A131424	1,800,000	06/01/2013-06/30/2017	-	-	1,800,000
Laws of 2012, Chapter 226, Section 21, Subsection 6	A131425	255,000	06/01/2013-06/30/2017	-	-	255,000
Laws of 2012, Chapter 226, Section 21, Subsection 7	A131426	265,000	06/01/2013-06/30/2017	-	-	265,000
Laws of 2012, Chapter 226, Section 21, Subsection 8	A131427	82,000	06/01/2013-06/30/2017	-	-	82,000
Laws of 2012, Chapter 226, Section 21, Subsection 9	A131428	50,000	06/01/2013-06/30/2017	-	-	50,000
Laws of 2012, Chapter 226, Section 21, Subsection 10	A131429	50,000	06/01/2013-06/30/2017	-	-	50,000
Laws of 2012, Chapter 226, Section 21, Subsection 11	A131430	25,000	06/01/2013-06/30/2017	-	-	25,000
Laws of 2012, Chapter 226, Section 21, Subsection 12	A131431	425,000	06/01/2013-06/30/2017	-	-	425,000
Laws of 2012, Chapter 226, Section 22	A131432	10,000,000	06/01/2013-06/30/2017	-	-	10,000,000
Laws of 2012, Chapter 226, Section 29, Subsection 1	A131569	20,000	06/01/2013-06/30/2017	-	-	20,000
Laws of 2012, Chapter 226, Section 29, Subsection 2	A131570	30,000	06/01/2013-06/30/2017	-	-	30,000
Laws of 2012, Chapter 226, Section 29, Subsection 3	A131571	60,000	06/01/2013-06/30/2017	-	-	60,000
Laws of 2012, Chapter 226, Section 29, Subsection 5	A131572	30,000	06/01/2013-06/30/2017	-	-	30,000
Laws of 2012, Chapter 226, Section 29, Subsection 6	A131573	50,000	06/01/2013-06/30/2017	-	-	50,000
Laws of 2012, Chapter 226, Section 29, Subsection 7	A131574	45,000	06/01/2013-06/30/2017	-	-	45,000
Laws of 2012, Chapter 226, Section 29, Subsection 8	A131575	41,850	06/01/2013-06/30/2017	-	-	41,850
Laws of 2012, Chapter 226, Section 29, Subsection 9	A131576	50,000	06/01/2013-06/30/2017	-	-	50,000
Laws of 2012, Chapter 226, Section 29, Subsection 10	A131577	100,000	06/01/2013-06/30/2017	-	-	100,000
Laws of 2012, Chapter 226, Section 29, Subsection 11	A131578	20,000	06/01/2013-06/30/2017	-	-	20,000
Laws of 2012, Chapter 226, Section 29, Subsection 12	A131579	80,000	06/01/2013-06/30/2017	-	-	80,000
Laws of 2012, Chapter 226, Section 29, Subsection 13	A131580	72,000	06/01/2013-06/30/2017	-	-	72,000
Laws of 2012, Chapter 226, Section 29, Subsection 14	A131581	12,000	06/01/2013-06/30/2017	-	-	12,000
Laws of 2012, Chapter 226, Section 29, Subsection 15	A131582	30,400	06/01/2013-06/30/2017	-	-	30,400
Laws of 2012, Chapter 226, Section 29, Subsection 16	A131583	15,000	06/01/2013-06/30/2017	-	-	15,000
Laws of 2012, Chapter 226, Section 29, Subsection 17	A131584	25,000	06/01/2013-06/30/2017	-	-	25,000
Laws of 2012, Chapter 226, Section 29, Subsection 18	A131585	25,000	06/01/2013-06/30/2017	-	-	25,000

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPTIAL OUTLAY APPROPRIATIONS
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Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumbered Balances
FUND 892 STB Capital Outlay, continued						
Laws of 2012, Chapter 226, Section 29, Subsection 19	A131586	6,000	06/01/2013-06/30/2017	-	-	6,000
Laws of 2012, Chapter 226, Section 29, Subsection 20	A131587	25,000	06/01/2013-06/30/2017	-	-	25,000
Laws of 2012, Chapter 226, Section 29, Subsection 21	A131588	40,000	06/01/2013-06/30/2017	-	-	40,000
Laws of 2012, Chapter 226, Section 29, Subsection 22	A131589	25,000	06/01/2013-06/30/2017	-	-	25,000
Laws of 2012, Chapter 226, Section 29, Subsection 23	A131590	30,000	06/01/2013-06/30/2017	-	-	30,000
Laws of 2012, Chapter 226, Section 29, Subsection 24	A131591	20,000	06/01/2013-06/30/2017	-	-	20,000
Laws of 2012, Chapter 226, Section 29, Subsection 25	A131592	46,750	06/01/2013-06/30/2017	-	-	46,750
Laws of 2012, Chapter 226, Section 29, Subsection 26	A131593	40,000	06/01/2013-06/30/2017	-	-	40,000
Laws of 2012, Chapter 226, Section 29, Subsection 27	A131594	50,000	06/01/2013-06/30/2017	-	-	50,000
Laws of 2012, Chapter 226, Section 29, Subsection 28	A131595	4,800	06/01/2013-06/30/2017	-	-	4,800
Laws of 2012, Chapter 226, Section 29, Subsection 29	A131596	16,000	06/01/2013-06/30/2017	-	-	16,000
Laws of 2012, Chapter 226, Section 29, Subsection 30	A131597	10,000	06/01/2013-06/30/2017	-	-	10,000
Laws of 2012, Chapter 226, Section 29, Subsection 31	A131598	82,667	06/01/2013-06/30/2017	-	-	82,667
Laws of 2012, Chapter 226, Section 29, Subsection 32	A131599	50,386	06/01/2013-06/30/2017	-	-	50,386
Laws of 2012, Chapter 226, Section 29, Subsection 33	A131600	94,000	06/01/2013-06/30/2017	-	-	94,000
Laws of 2012, Chapter 226, Section 29, Subsection 34	A131601	25,000	06/01/2013-06/30/2017	-	-	25,000
Laws of 2012, Chapter 226, Section 29, Subsection 35	A131602	34,000	06/01/2013-06/30/2017	-	-	34,000
Laws of 2012, Chapter 226, Section 29, Subsection 36	A131603	9,500	06/01/2013-06/30/2017	-	-	9,500
Laws of 2012, Chapter 226, Section 29, Subsection 37	A131604	15,000	06/01/2013-06/30/2017	-	-	15,000
Laws of 2012, Chapter 226, Section 29, Subsection 38	A131605	25,000	06/01/2013-06/30/2017	-	-	25,000
Laws of 2012, Chapter 226, Section 29, Subsection 39	A131606	16,000	06/01/2013-06/30/2017	-	-	16,000
Laws of 2012, Chapter 226, Section 29, Subsection 40	A131607	16,400	06/01/2013-06/30/2017	-	-	16,400
Laws of 2012, Chapter 226, Section 29, Subsection 41	A131608	25,000	06/01/2013-06/30/2017	-	-	25,000
Total Capital Outlay Appropriations - Fund 892		42,126,685		9,864,455	654,287	31,607,943
Total unexpended balance						\$ 32,262,230
Reconciliation to fund balance (892)						
1) Less: Severance tax bond - Revenue accrued on reimbursement basis						22,262,230
2) Less: Accounts payable-Accrued drawdown						481,614
						22,743,844
Fund Balance after reconciling items						\$ 9,518,386
Fund balance per financial statements						(9,518,386)
Difference						\$ -
FUND 931 - General Fund Capital Outlay						
Laws of 2011, Chapter 183, Section 78	A073277	\$ 6,594	07/01/2011-06/30/2013	\$ 6,527	-	67
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	15,312	-	9,077
Laws of 2011, Chapter 183, Section 74	A074812	33,753	07/01/2011-06/30/2013	33,753	-	0
Laws of 2011, Chapter 183, Section 76	A074813	16,680	07/01/2011-06/30/2013	15,218	-	1,462
Total Capital Outlay Appropriations - Fund 931		\$ 89,177		\$ 78,564	-	10,613
Total unexpended balance						\$ 10,613
Reconciliation to fund balance (931)						
Less: Reversion - Due to the General Fund						10,613
Fund Balance after reconciling items						-
Fund balance per financial statements						-
Difference						\$ -

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
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Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumb- ered Balances
<u>FUND 214 - General Fund</u>						
Laws of 2012, Chapter 19, Section 7, Subsection 14	Z20714	\$ 220,000	03/02/2012-06/30/2013	\$ 220,000	-	-
Laws of 2013, Chapter 227, Section 5, Subsection 44	Z30544	6,500,000	04/05/2013-06/30/2014	19,197	9,551	6,471,252
Laws of 2013, Chapter 227, Section 5, Subsection 45	Z30545	400,000	04/05/2013-06/30/2014	4,967	93,679	301,354
Laws of 2013, Chapter 227, Section 5, Subsection 46	Z30546	500,000	04/05/2013-06/30/2014	-		500,000
Total Special Appropriations - Fund 214		\$ 7,620,000		\$ 244,164	103,230	7,272,606
<u>FUND 2017 - Indian Water Rights Settlement</u>						
Laws of 2009, Chapter 5, Section 2, Subsection B (11)	A093009	\$ 10,000,000		\$ 8,810,590	\$ 9,970	\$ 1,179,440
<u>FUND 326 - Irrigation Works Construction Fund</u>						
Laws of 2013, Chapter 227, Section 7, Subsection 45	Z30715	\$ 400,000	04/05/2013-06/30/2015	\$ 204,003	126,212	\$ 69,786



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

OSE

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Engineer / Interstate Stream Commission (the Agency), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

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

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

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

December 16, 2013

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items: 13-01 and 13-02.

The Agency's Response to Findings

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

Purpose of this Report

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



Hinkle + Landers, P.C.
Albuquerque, NM
December 16, 2013



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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

Report on Compliance for Each Major Federal Program

We have audited 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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 13-01. Our opinion on each major federal program is not modified with respect to these matters.

December 16, 2013

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

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 13-01 that we consider to be a significant deficiency.

The Agency's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
December 16, 2013

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of report issued	Unmodified
Internal control over financial reporting: Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Exit 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?	Yes
Type of auditors’ report issued on major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
15-537	Rio Rancho Open Space Habitat Restoration	US Department of Interior – Bureau of Reclamation

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, 2013**

SECTION II AND III- FINANCIAL STATEMENT FINDINGS

Finding	Status of Current and Prior Year Findings	Financial Statement Finding	Federal Awards Finding	Other Matters/ State Compliance Finding
Prior:				
None				
Current:				
13-01—Federal Reporting Noncompliance- Financial Reports Submitted Late	Current	No	Yes	No
13-02—Controls Over State Issued Gas Credit Card	Current	No	No	Yes

Current Year Findings:

13-01—Federal Reporting Noncompliance- Financial Reports Submitted Late

Type of Finding -Significant Deficiency

Federal Program Information:

Funding Agency: Department of the Interior

Title: Middle Rio Grande Endangered Species Collaborative Program

CFDA Number: 15.537

Statement of Condition

During our test work over federal awards, we noted three of the four federally required reports were not submitted on time. Federal Financial Report SF-425 for the reporting period ending 09/30/2012 was submitted 1 day late, for the reporting period ending 07/30/12 was submitted 2 days late, and for the reporting period ending 04/30/13 was submitted 1 day late.

Criteria

Section 9.1 titled “Noncompliance” of Grant Agreement No. R11AP40092, between the Bureau of Reclamation and the New Mexico Interstate Stream Commission, states that; ‘failure to comply with the reporting requirements contained in this agreement may be considered a material non-compliance with the terms and conditions of the award’.

Effect

The Agency is not in compliance with the federal reporting requirements.

Cause

The person responsible for submitting the report was out of the office during the time in which it was due. This person is the only authorized signer and reports were submitted late upon the person’s return.

Recommendation

We recommend the Agency implement policies and procedures regarding federal reporting submission.

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OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

Management Response

The federal grant reimbursement requests are always prepared within the month following the federal grant reimbursement deadlines. However, management review and approval is sometimes difficult to achieve within the required time frame because of the demands placed on management, particularly the ISC Director who is the authorized signature on the grant and is required to be away from the office in attendance of meetings both in and out of state. ISC has communicated with the Bureau of Reclamation if timely reporting is going to be an issue on at least one occasion. As a result of the finding noted, the Chief Financial Officer contacted the Bureau of Reclamation (BOR) to inquire about adding an additional authorized signature to the grant for reporting and reimbursement requests to ensure that reports can be submitted in a timely manner going forward if the ISC Director is not available to sign to reports. A representative from BOR did respond to the inquiry but noted due to the short time left on the grant and the time involved in processing a grant amendment that would allow for an additional authorized signature, doing so would not provide for a timely resolution. The representative did recommend that going forward, both the ISC Director and OSE/ISC Chief Financial Officer be listed as authorized signatures when entering into grant agreements.

13-02—Controls Over State Issued Gas Credit Card

Type of Finding -Other Matters/State Compliance Finding

Statement of Condition

We reviewed three months of Wright Express fuel card (WEX) statements for License # 1855SG with total expenditures of \$492. The transactions were examined for compliance with applicable statutes. As a result of that review, we noted that mileage amounts were frequently reported incorrectly on the monthly vehicle log and WEX statements and some transactions that are recorded on the statements were missing from the vehicle log. Therefore, auditors were unable to determine the business purposes for the trips. The client was unable to provide supporting receipts for the months of October 2012, January 2013. In addition, there is no evidence that vehicle logs are being monitored and signed off on and reconciled to the statements to ensure that the credit card is not being misused.

Criteria

Per 1.5.4.12., State of New Mexico credit cards shall be used only for official business and only to furnish state-owned vehicles with: A. regular gasoline; B. unleaded gasoline; C. diesel fuel; D. lubrication motor oil; F. car wash; and G. emergency purchases not exceeding \$100 in total. Per NMAC 1.5.3.19, the state agency shall seek reimbursement from employees who make unauthorized purchases on the state fuel credit card.

Cause

During the current year, certain vehicles were reassigned from separate divisions into a single car pool controlled by one of the Agency's programs. During the transition, receipts were misplaced.

Effect

Inadequate internal oversight can heighten the potential for fraud or misappropriation of public funds.

Recommendation

The Department has a system to ensure that only unleaded fuel is used and requests the receipts for any questionable entries on the statement prior to payment of credit card. Therefore, it would be possible that some unauthorized fuel purchases may go unnoticed. The Department may consider additional controls over purchases to ensure that public funds are not being

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

misused. The Department should implement regular monitoring of purchases made with the fuel cards and require supporting documentation for all purchases made. In addition, monthly vehicle log should be reviewed timely and signed off by an authorized staff.

Management Response

Current OSE/ISC Policy and Procedure requires the following in regards to mileage entry at point of purchase: "When purchasing items with the fuel card you are required to enter the exact current mileage at the time of purchase (do not include tenths). Incorrect entries will be detected upon review of the fuel card invoices. The employee and the supervisor will be notified of the incorrect entries when detected. Repeated entry of incorrect mileage may result in disciplinary action." With regards to Vehicle mileage log it states: "Each vehicle will have a vehicle mileage log assigned to it that will be used to track and monitor all vehicle activity and associated costs. At the very least the mileage log needs to contain the following information: date; employee name; beginning and ending mileage; destination; purpose of trip; type of fuel purchased; gallons; total cost; other vehicle costs and purchases. This mileage log should also have a place on the form that allows the supervisor to perform random verifications. This mileage log would be used for audits comparing actual gas receipts against vehicle usage. Individual trip tickets can also be used to substantiate vehicle usage.. Gas receipts and vehicle logs must be retained until the close of the fiscal year and the external audit is completed." In addition current policy and procedure also requires monthly review of expenditures: "The monthly exception report will be reviewed by the fuel card account manager to ensure that all transactions are legitimate and can be justified. Transactions that cannot be justified will be investigated, with a formal report summarizing the findings and making recommendations. A copy of the report will be sent to the Transportation Services Division."

As noted in the cause WRAP Vehicles were consolidated under one manager per district office in the last months of FY 13. In addition, staff from the group (WUC) originally assigned the vehicle noted moved during that time period to another building, so it is possible that receipts were lost or misplaced in either the move or in the management transition. WUC did find receipts prior to FY 13 that had been retained. OSE/ISC programs do know that they are required to hang on to all receipts until after the annual audit is turned in to State Auditor's Office. Programs tend to hang on to them for many years, so the loss of receipts in the instance noted is an exceptional case for OSE/ISC. The purpose for the change in managing WRAP vehicles in particular which makes up 70% of OSE/ISCs vehicle pool was precisely to better monitor vehicle use. WRAP management have been informed of the noted finding.

On a monthly basis, the agency fuel card account manager does review the Exception and Vehicle Analysis Reports provided by Wright Express (WEX) with the monthly fuel card invoice prior to processing the invoice for payment. Items reviewed include transactions over \$70, gallons per transaction, price per gallon, fuel type, days and hours of fuel purchases, gallons per month, more than 1 transaction per day, non-fuel purchases, vehicles not fueling, replaced gas cards, and drivers added and deleted. The fuel card account manager notifies employees and supervisors of incorrect odometer entries and follows up with each program on any questionable transactions, requesting information and justification and when applicable receipts for all non-fuel purchases. Documentation of such inquiries are retained and filed with a copy of the monthly (WEX) invoice and reports, and a report would be forwarded to Transportation Services Division if any transaction was found to be unjustified. In addition, Transportation Services Division reviews the agency's vehicle logs when then periodically call for inspection of all vehicles and the agency fuel card account manager and the chief financial officer occasionally send out reminders to all employees regarding proper fuel card and vehicle usage and will continue to do so.

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
EXIT CONFERENCE
For the Year Ended June 30, 2013**

An exit conference was held on December 16, 2013. Present at the exit conference were:

Scott Verhines	State Engineer
Kim Abeyta-Martinez	Program Manager, Interstate Stream Commission
Curtis Eckhart	Director, Program Support
Monica Trujillo	Chief Financial Officer
Farley Vener, CPA, CFE	Independent auditor, Hinkle + Landers, P.C.
Maclen Enriquez	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.