



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, 2016

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, 2016**

<u>Name</u>	<u>Title</u>
Tom Blaine, PE	State Engineer
Deborah Dixon	Director, Interstate Stream Commission Compact Compliance Program
Greg Ridgley	Director, Litigation & Adjudication Program
Jeff Primm	Director, Program Support
John Romero	Water Rights Division Director, Water Resource Allocation Program
John Longworth	Technical Division Director, Water Resource Allocation Program

INTERSTATE STREAM COMMISSION

Caleb Chandler	Chairman, Clovis
Tom Blaine	Secretary, Santa Fe
Jim Dunlap	Member, Farmington
Buford Harris	Member, Mesilla
Blane Sanchez	Member, Isleta
Mark Sanchez	Member, Albuquerque
Topper Thorpe	Member, Cliff
James Wilcox	Member, Carlsbad

ADMINISTRATION

Jeff Primm	Director, Program Support
Monica Trujillo	Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

Mr. Tim Keller, State Auditor
and
Mr. Caleb Chandler, Chairman
Tom Blaine, 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, 2016, 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 funds, fiduciary funds, 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, 2016, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2016, 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 and fiduciary fund of the Agency as of June 30, 2016, 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.

Emphasis of Matter

As discussed in Note EE to the financial statements, the 2016 financial statements have been restated by an immaterial amount to remove old payables from the general ledger. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 other schedules, listed as "other supplemental information (audited)" 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 other schedules, listed as "other supplemental information (audited)" 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 other schedules, listed as "other supplemental information (audited)" 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.

The Schedule of Vendor Information, listed as “other supplemental information (unaudited)” in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016, 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 1, 2016

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

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, 2016. 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 of 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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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.

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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

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, 2016**

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, 2015 and 2016.

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

	<u>2016</u>	<u>2015</u>	<u>Amount Change</u>
Assets			
Current assets	\$ 92,683,819	\$ 88,892,441	\$ 3,791,378
Capital and other non-current assets	<u>132,096,960</u>	<u>138,978,073</u>	<u>(6,881,113)</u>
Total Assets	\$ <u>224,780,779</u>	\$ <u>227,870,514</u>	\$ <u>(3,089,735)</u>
Liabilities			
Current liabilities	\$ 6,151,344	\$ 7,511,912	\$ (1,360,568)
Non-current liabilities	<u>62,177,335</u>	<u>79,429,052</u>	<u>(17,251,717)</u>
Total Liabilities	<u>68,328,679</u>	<u>86,940,964</u>	<u>(18,612,285)</u>
Net Position			
Investment in capital assets	102,168,537	102,591,567	(423,030)
Restricted	73,609,969	63,804,772	9,805,197
Unrestricted	<u>(19,326,406)</u>	<u>(25,466,789)</u>	<u>6,140,383</u>
Total Net Position	<u>156,452,100</u>	<u>140,929,550</u>	<u>15,522,550</u>
Total Liabilities and Net Position	\$ <u>224,780,779</u>	\$ <u>227,870,514</u>	\$ <u>(3,089,735)</u>

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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

The Agency had total assets of \$224,780,779 and total liabilities of \$68,328,679 for fiscal year 2016. The Agency's net position for fiscal year 2016 was \$156,437,085, an increase of \$15,522,550 relative to fiscal year 2015. This increase is attributable to the reduction of the remaining share of the State's participation in three major Indian water rights settlements resulting from increased settlement expenditures and due to a reduction in the estimate of the total indexed cost of construction under the Aamodt Pueblo settlement. 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, 2015 and 2016.

	<u>2016</u>	<u>2015</u>	<u>Amount Change</u>
Expenses			
Agriculture, Energy and Natural Resources	\$ 57,809,074	\$ 85,315,521	\$ (27,506,447)
Program revenues	6,749,483	29,174,886	(22,425,403)
Net program expense	<u>(51,059,591)</u>	<u>(56,140,635)</u>	<u>(5,081,044)</u>
General revenues			
General Fund appropriation	19,278,800	18,300,200	978,600
Special appropriation	1,000,000	-	1,000,000
Investment income	8,610,488	8,536,304	74,184
Gain (loss) on disposal of asset, net	-	-	-
Total general revenues	<u>28,889,288</u>	<u>26,836,504</u>	<u>2,052,784</u>
Other financing sources (uses) & special items			
Net Transfers	17,726,812	26,939,493	(9,212,681)
Special items	19,980,254	26,022,488	(6,042,234)
Total other financing sources (uses) & special items	37,707,066	52,961,981	(15,254,915)
Change in net position	<u>15,536,763</u>	<u>23,657,850</u>	<u>(8,121,087)</u>
Net position, beginning	140,929,550	117,271,700	23,657,850
Restatement	(14,213)	-	(14,213)
Net position, restated	<u>140,915,337</u>	<u>117,271,700</u>	<u>23,643,637</u>
Net assets, ending	<u>\$ 156,452,100</u>	<u>\$ 140,929,550</u>	<u>\$ 15,522,550</u>

For fiscal year 2016, the Agency's net position amounted to \$156,452,100, an increase of \$15,522,550 from fiscal year 2015. Below is a discussion of the primary components of the Agency's Statement of Activities:

Revenue - The Agency's program revenues consist mainly of earnings on investments and other miscellaneous revenue. Program revenues of \$6,749,483 were recognized in fiscal year 2016, a net decrease of \$22,425,403. The general revenues of the Agency, consisting primarily of general fund appropriations and investment income, amounted to \$28,889,288. This was an increase of \$2,052,784 from fiscal year 2015.

Expenses - The Agency's expenses consist of personal services and employee benefits, contractual services, other expenses, and depreciation expenses. Expenditures for fiscal year

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For the Year Ended June 30, 2016**

2016 were \$27,506,447 below fiscal year 2015. Most of this decrease was due to lower expenditure activity related to the Indian water rights settlements in fiscal year 2016.

Net Transfers - The Agency had net transfers in of \$17,726,812. This consisted of severance tax bond proceeds transfers in for reimbursement of capital outlay expenditures and amounting to \$18,778,244. In addition, the Agency had interagency transfers in of \$182,300. Offsetting these transfers in were reversions of revenue to other state agencies totaling \$623,732, as well as transfers to other agencies of appropriations in support of water related litigation activities totaling \$610,000.

Special Items - Special items include adjustments to the State's share of the three major Indian water rights settlements \$17,061,217, interest earned and accrued to the State for its' participation in the Arizona Water Rights Settlement \$2,728,537, and contingent liability adjustment (\$190,500). The net effect of these items is an increase to the net position of \$19,599,254.

Governmental Funds

The governmental funds of the Agency reported a combined balance of \$79,809,033 which is an increase of \$7,221,558 over fiscal year 2015. This increase is primarily attributable to revenue received for special appropriations and lower expenses.

Capital Assets

The Agency's capital assets, net of depreciation, total \$102,168,537. This includes land and water rights valued at \$74,893,773, and infrastructure, comprised of the Ute Lake Dam as well as water measurement and metering infrastructure. A total of \$919,407 was added in fiscal year 2016, including construction works-in-progress of \$750,755, of which infrastructure of \$707,957 was completed and placed in service, furniture and fixtures of \$15,229, and machinery and equipment of \$153,423. The Agency had no deletions of capital assets in FY16.

Performance Measures

The Agency collects data to measure success in meeting performance measure targets to address the requirements for the Accountability in Government Act (AGA), Sections 6-3A-1 through 6-3A-8 NMSA 1978. Performance measures outlined in the General Appropriation's Act, Laws of 2004 for the year ended June 30, 2016 were as follows:

<u>Type</u>	<u>Measure</u>	<u>FY16 Target Level</u>	<u>FY16 Year-End Result</u>	<u>Met Target</u>
Water Resource & Allocation Program:				
Output	Average number of unprotested new and pending applications processed per month	70	93	Yes
Explanatory	Number of unprotested and unaggrieved water right applications backlogged	650	422	No
Outcome	Number of dams inspected per year and notices delivered to owners notifying of potential problems	100	107	Yes

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<u>Type</u>	<u>Measure</u>	<u>FY16 Target Level</u>	<u>FY16 Year-End Result</u>	<u>Met Target</u>
Water Resource & Allocation Program:				
Outcome	Percent readiness to perform active water resource management within lower San Juan river basin	100%	98%	No
Outcome	Percent readiness to perform active water resource management within lower Pecos river basin	100%	88%	No
Outcome	Number of transactions abstracted annually into the water administration technical engineering resource system database	23,000	18,287	No
Outcome	Percent readiness to perform active water resource management within lower Rio Grande river basin	92	92	Yes
Interstate Stream Compact Compliance and Water Development Program:				
Outcome	Cumulative state-line delivery credit per the Pecos River Compact and amended decree at the end of calendar year, in acre-feet	≥ 0	109,500	Yes
Outcome	Cumulative state-line delivery credit per the Rio Grande river compact and amended decree at the end of calendar year, in acre feet	≥ 0	400	Yes
Litigation and Adjudication Program:				
Outcome	Number of offers to defendants in adjudications	600	839	Yes
Outcome	Percent of all water rights that have judicial determinations	59%	63%	Yes
Outcome	Percent of objections resolved informally without referral to mediation	85%	85%	Yes

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

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MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

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.

A concern going forward is that 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 2016, expenditures and transfers from the fund exceeded revenue and transfers into the fund by close to \$2 million. This difference could increase to close to as much as \$6 to \$8 million in fiscal years 2018 and 2019 if climate and litigation variables pair with an anticipated need to replace the water project fund funding as a primary source of funding for the Litigation and Adjudication Program operations and adjudication efforts. Unless steps are taken to decrease the proportion of Irrigation Works Construction Fund used to support Agency operations and water project fund revenues strengthen, the Irrigation Works Construction Fund could be fully depleted before the end of fiscal year 2019. As the Irrigation Works Construction Fund is depleted, it is anticipated that increasing reliance on the Improvement to the Rio Grande Fund (#328), the agency's other trust fund, as an alternate funding source will result in that funds' balances to also be in jeopardy of being depleted within several years. Absent stronger revenues into its funds or the availability of new funding sources, 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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P.O. Box 25102
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**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
(GOVERNMENT-WIDE)
STATEMENT OF NET POSITION (DEFICIT)
As of June 30, 2016**

ASSETS	<u>Governmental Activities</u>
Current assets	
Petty cash	\$ 125
State General Fund Investment Pool	65,878,572
Receivables, net	483,243
Prepaid expenses	113,800
Due from local governments	2,238
Due from other state agencies	1,499,834
Due from federal government	1,082,795
Investments	14,583,212
Settlement due from federal government, current portion	9,040,000
Total current assets	<u>92,683,819</u>
Noncurrent assets	
Loans receivable, net of allowance	1,064,408
Settlement due from federal government	28,864,015
Capital assets, net of depreciation	102,168,537
Total assets	<u>\$ 224,780,779</u>
 LIABILITIES	
Current liabilities	
Accounts payable	\$ 3,240,080
Accrued salaries and benefits payable	813,063
Due to local governments	42,857
Due to other state agencies	106,158
Due to state General Fund	696,586
Due to federal government	450
Compensated absences:	
Expected to be paid within one year	1,252,150
Total current liabilities	<u>6,151,344</u>
 Noncurrent liabilities	
Indian Water Rights Settlement, long-term portion	62,099,835
Contingent liabilities	77,500
Total noncurrent liabilities	<u>62,177,335</u>
Total liabilities	<u>68,328,679</u>
 NET POSITION (DEFICITS)	
Restricted for:	
Expenditure in future years	12,505,990
Ute Dam operating/construction	626,593
Loans	1,064,408
Investigation and construction of water conservation projects	12,445,012
Improvement and increase of surface flow of Rio Grande River	6,574,787
Water projects in the Gila region	39,174,074
Indian water rights settlement	640,360
Pecos River Basin land management	578,745
Unrestricted	(19,326,406)
Net investment in capital assets	102,168,537
Total net position	<u>156,452,100</u>
Total liabilities and net position	<u>\$ 224,780,779</u>

See independent auditor's 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, 2016**

	Governmental Activities
Expenses	
Agriculture, Energy and Natural Resources	
Current:	
Personal services and employee benefits	\$ 24,091,588
Contractual services	21,844,639
Other	10,530,410
Depreciation expense	1,342,437
Total expenses	57,809,074
Program revenues	
Charges for services	-
Operating grants and contributions	6,749,483
Capital grants and contributions	-
Total program revenues	6,749,483
Net program expense	(51,059,591)
General revenues	
General Fund appropriation	19,278,800
Special appropriation	1,000,000
Investment income	8,610,488
Gain (loss) on disposal of asset, net	-
Total general revenues	28,889,288
Other financing sources (uses) & special items	
Transfers in (out):	
Severance tax bond appropriations	18,778,244
Interagency transfers in	182,300
Reversion to the State General Fund FY16	(623,732)
Interagency transfers out	(610,000)
Special items:	
Adjustment to Indian Water Rights Settlement	17,061,217
Arizona Water Settlement	2,728,537
Contingent Liability Adjustment	190,500
Total other financing sources (uses) & special items	37,707,066
Change in net position	15,536,763
Net position, beginning	140,929,550
Restatement	(14,213)
Net position, beginning, restated	140,915,337
Net position, ending	\$ 156,452,100

See independent auditor's 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, 2016

	Major Funds						Total Governmental Funds
	214/864 General Fund	267 Capital Projects Fund	326 Irrigation Works Construction Fund	3081 New Mexico Unit Fund	892 STB Capital Outlay Fund	Other Funds	
ASSETS							
Petty Cash	\$ 125	-	-	-	-	-	125
State General Fund Investment Pool	3,733,569	8,271,422	2,193,863	39,732,959	4,292,114	7,654,645	65,878,572
Receivables, net of allowance	180,611	-	302,632	-	-	-	483,243
Due from other funds	3,883,046	19,071	15	-	-	22,259	3,924,391
Due from other state agencies	-	-	547,386	-	829,974	122,474	1,499,834
Due from federal sources	1,082,795	-	-	-	-	-	1,082,795
Due from local governments	-	-	-	2,238	-	-	2,238
Prepaid expense	113,800	-	-	-	-	-	113,800
Investments	-	-	12,795,634	-	-	1,787,578	14,583,212
Loan receivables, net of allowance	-	-	1,064,408	-	-	-	1,064,408
Total assets	8,993,946	8,290,493	16,903,938	39,735,197	5,122,088	9,586,956	88,632,618
DEFERRED OUTFLOW OF RESOURCES							
	-	-	-	37,904,015	-	-	37,904,015
Total assets and deferred outflow of resources	8,993,946	8,290,493	16,903,938	77,639,212	5,122,088	9,586,956	126,536,633
LIABILITIES							
Accounts payable	\$ 2,161,117	1,712	-	527,907	549,344	-	3,240,080
Accrued payroll	366,040	-	-	-	-	-	366,040
Payroll related liabilities	447,023	-	-	-	-	-	447,023
Due to other funds	97,284	232,902	3,394,518	33,216	-	166,471	3,924,391
Due to federal government	450	-	-	-	-	-	450
Due to other state agencies	106,158	-	-	-	-	-	106,158
Due to local government	-	-	-	-	42,857	-	42,857
Due to State General Fund	696,586	-	-	-	-	-	696,586
Total liabilities	3,874,658	234,614	3,394,518	561,123	592,201	166,471	8,823,585
DEFERRED INFLOW OF RESOURCES							
	-	-	-	37,904,015	-	-	37,904,015
Total liabilities and deferred inflow of resources	3,874,658	234,614	3,394,518	38,465,138	592,201	166,471	46,727,600
FUND BALANCE							
Nonspendable: Prepaid expense	113,800	-	-	-	-	-	113,800
Nonspendable: Long-term receivables	-	-	1,064,408	-	-	-	1,064,408
Restricted	6,862,303	-	12,445,012	39,174,074	4,529,887	9,420,485	72,431,761
Committed	-	8,055,879	-	-	-	-	8,055,879
Unassigned: Petty cash	125	-	-	-	-	-	125
Unassigned	-	-	-	-	-	-	-
Unassigned: Special appropriation expended	(1,856,940)	-	-	-	-	-	(1,856,940)
Total fund balance	5,119,288	8,055,879	13,509,420	39,174,074	4,529,887	9,420,485	79,809,033
Total liabilities and fund balance	8,993,946	8,290,493	16,903,938	77,639,212	5,122,088	9,586,956	126,536,633

See independent auditor's 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 FUND BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
As of June 30, 2016**

Total fund balance - Governmental funds	\$	79,809,033
<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>		102,168,537
<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		(62,099,835)
Contigent liabilities		(77,500)
Compensated absences payable		(1,252,150)
<p>Some revenue is deferred in the funds but accrued as revenue in the government-wide statements and added to net position</p>		37,904,015
Rounding		-
		-
Net position of governmental activities	\$	156,452,100

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, 2016

	Major Funds						Total Governmental Funds
	General Fund	267 Capital Projects Fund	326 Irrigation Works Construction Fund	3081 New Mexico Unit Fund	892 STB Capital Outlay Fund	Other Funds	
Revenues							
Federal sources	\$ 215,665	-	-	-	-	-	215,665
State sources	-	-	35,800	-	-	-	35,800
Investment earnings (loss)	-	-	6,975,628	80,209	-	1,531,244	8,587,081
Interest on loans	-	-	23,408	-	-	-	23,408
Miscellaneous revenue	5,776,593	-	747,611	2,238	-	143,460	6,669,902
Total revenues	<u>5,992,258</u>	<u>-</u>	<u>7,782,447</u>	<u>82,447</u>	<u>-</u>	<u>1,674,704</u>	<u>15,531,856</u>
Expenditures							
Agriculture, Energy and Natural Resources							
Current:							
Personal services and benefits	23,994,920	-	-	-	-	-	23,994,920
Contractual services	7,242,408	45,700	-	982,278	1,138,449	-	9,408,835
Other costs	4,735,309	852,884	-	-	5,651,670	-	11,239,863
Capital outlay:	166,829	-	-	-	43,124	-	209,953
Total expenditures	<u>36,139,466</u>	<u>898,584</u>	<u>-</u>	<u>982,278</u>	<u>6,833,243</u>	<u>-</u>	<u>44,853,571</u>
Excess (deficiency) of revenue over expenditure	<u>(30,147,208)</u>	<u>(898,584)</u>	<u>7,782,447</u>	<u>(899,831)</u>	<u>(6,833,243)</u>	<u>1,674,704</u>	<u>(29,321,715)</u>
Other financing sources (uses)							
Transfers in (out):							
Severance tax bond proceeds	-	-	-	-	20,725,924	-	20,725,924
State General Fund appropriations FY16	19,278,800	-	-	-	-	1,000,000	20,278,800
Interfund transfers in	11,500,936	-	15	-	-	22,259	11,523,210
Interagency transfers in	182,300	-	-	-	-	-	182,300
Interfund transfers (out)	(213,509)	-	(9,480,047)	(258,204)	-	(1,571,450)	(11,523,210)
Interagency transfers (out)	(610,000)	-	-	-	-	-	(610,000)
Reversions FY16	(623,732)	-	-	-	-	-	(623,732)
Special items:							
Indian Water Rights Settlement	(35,000)	-	-	-	(12,400,806)	-	(12,435,806)
Arizona Water Settlement	-	-	-	9,040,000	-	-	9,040,000
Total other financing sources (uses) & Special items	<u>29,479,795</u>	<u>-</u>	<u>(9,480,032)</u>	<u>8,781,796</u>	<u>8,325,118</u>	<u>(549,191)</u>	<u>36,557,486</u>
Net change in fund balance	<u>(667,413)</u>	<u>(898,584)</u>	<u>(1,697,585)</u>	<u>7,881,965</u>	<u>1,491,875</u>	<u>1,125,513</u>	<u>7,235,771</u>
Fund balance, beginning, as originally reported	5,800,914	8,954,463	15,207,005	31,292,109	3,038,012	8,294,972	72,587,475
Restatement	(14,213)	-	-	-	-	-	(14,213)
Fund balance, beginning	<u>5,786,701</u>	<u>8,954,463</u>	<u>15,207,005</u>	<u>31,292,109</u>	<u>3,038,012</u>	<u>8,294,972</u>	<u>72,573,262</u>
Fund balance, ending	<u>\$ 5,119,288</u>	<u>8,055,879</u>	<u>13,509,420</u>	<u>39,174,074</u>	<u>4,529,887</u>	<u>9,420,485</u>	<u>79,809,033</u>

See independent auditor's report
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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, 2016

Net change in fund balances (deficit) - total governmental funds \$ 7,235,771

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	\$ 919,407	
Depreciation	<u>(1,342,437)</u>	(423,030)

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	-	-
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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 inflows	(8,431,028)	
Change in estimate of Indian Water Rights revenue	4,625,411	
Gain on disposal of assets	-	
Change in compensated absences	(96,666)	
Contingent liability expense	190,500	
Indian Water Rights Settlement expense	12,435,806	
Rounding	<u>(1)</u>	

Change in net position of governmental activities \$ 15,536,763

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 BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ 3,852,800	3,852,800	4,826,593	973,793
Federal funds	166,700	269,728	215,665	(54,063)
Total revenues	<u>4,019,500</u>	<u>4,122,528</u>	<u>5,042,258</u>	<u>919,730</u>
Fund Balance Budgeted	<u>266,000</u>	<u>601,388</u>		
Total	<u>4,285,500</u>	<u>4,723,916</u>		
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	25,902,200	25,732,700	23,994,919	1,737,781
Contractual services	9,194,000	9,206,558	7,277,408	1,929,150
Other	6,127,742	6,773,100	4,880,453	1,892,647
Capital outlay	<u>182,058</u>	<u>182,058</u>	<u>166,829</u>	<u>15,229</u>
Total expenditures	<u>41,406,000</u>	<u>41,894,416</u>	<u>36,319,609</u>	<u>5,574,807</u>
Excess (deficiency) of revenues over expenditures	<u>(37,120,500)</u>	<u>(37,170,500)</u>	<u>(31,277,351)</u>	<u>5,893,149</u>
Other financing sources (uses)				
General appropriations	19,278,800	19,278,800	19,278,800	-
Operating transfers in	18,501,700	18,501,700	11,671,145	6,830,555
Operating transfers out	<u>(660,000)</u>	<u>(610,000)</u>	<u>(644,365)</u>	<u>(34,365)</u>
Total other financing sources (uses)	<u>37,120,500</u>	<u>37,170,500</u>	<u>30,305,580</u>	<u>6,796,190</u>
Reversion	-	-	(623,732)	(623,732)
Change in fund balance	-	-	(1,595,503)	
Fund balance, beginning of year			<u>3,080,775</u>	
Fund balance, end of year			<u>\$ 1,485,272</u>	

Reconciliation of Budgetary Basis to Fund Financial Statement

Change in fund balance per budgetary basis	\$ (1,595,503)
Adjustments:	
Current year accounts payable that required a request to pay current-year bills out of the FY2017 budget	-
Prior year accounts payable paid out of FY2016 budget	145,144
Amounts recorded as revenues/OFS in the fund financial statements, but included in another budget (Fund 864)	962,090
Amounts recorded as expenses/OFU in the fund financial statements, but included in another budget (Fund 864)	<u>(179,144)</u>
Total GAAP basis net change in fund balance - fiscal year ended June 30, 2016	<u>\$ (667,413)</u>

See independent auditor's 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 BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Miscellaneous revenue	\$ -	-	35,800	35,800
Investment earnings	6,175,000	6,175,000	6,975,628	800,628
Land rental	620,000	620,000	747,611	127,611
Interest on loans	55,000	55,000	23,408	(31,592)
Total revenues	6,850,000	6,850,000	7,782,447	932,447
Fund Balance Budgeted	6,878,200	6,878,200		
Total	13,728,200	13,728,200		
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	13,728,200	13,728,200	7,782,447	(5,945,753)
Other financing sources (uses)				
Operating transfers in	-	-	15	15
Operating transfers out	(13,728,200)	(13,728,200)	(9,480,047)	4,248,153
Total other financing sources (uses)	(13,728,200)	(13,728,200)	(9,480,032)	4,248,168
Change in fund balance	-	-	(1,697,585)	
Fund balance, beginning of year			15,207,005	
Fund balance, end of year			\$ 13,509,420	

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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
NEW MEXICO UNIT FUND (3081) – MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous revenue	\$ -	5,000,000	9,042,238	4,042,238
Interest on investments	-	-	80,209	80,209
Total revenues	<u>-</u>	<u>5,000,000</u>	<u>9,122,447</u>	<u>80,209</u>
Fund Balance Budgeted	<u>4,043,102</u>	<u>4,043,102</u>		
Total	<u>\$ 4,043,102</u>	<u>9,043,102</u>		
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	3,518,030	3,518,030	982,278	2,535,752
Other	<u>99,772</u>	<u>5,099,772</u>	<u>-</u>	<u>5,099,772</u>
Total expenditures	<u>3,617,802</u>	<u>8,617,802</u>	<u>982,278</u>	<u>7,635,524</u>
Excess (deficiency) of revenues over expenditures	<u>425,300</u>	<u>425,300</u>	<u>8,140,169</u>	<u>7,714,869</u>
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(425,300)</u>	<u>(425,300)</u>	<u>(258,204)</u>	<u>167,096</u>
Total other financing sources (uses)	<u>(425,300)</u>	<u>(425,300)</u>	<u>(258,204)</u>	<u>167,096</u>
Change in fund balance	-	-	7,881,965	
Fund balance, beginning of year			<u>31,292,109</u>	
Fund balance, end of year			<u>\$ 39,174,074</u>	

Reconciliation of Budgetary Basis to Fund Financial Statement

Change in fund balance per budgetary basis	\$ 7,881,965
Adjustments:	
Current year accounts payable that required a request to pay current-year bills out of the FY2017 budget	-
Prior year accounts payable paid out of FY2016 budget	-
Total GAAP basis net change in fund balance - fiscal year ended June 30, 2016	<u>\$ 7,881,965</u>

See independent auditor's 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, 2016

	Agency Funds
Assets	
Cash and investments	\$ <u>298,818</u>
Total assets	\$ <u><u>298,818</u></u>
Liabilities	
Water rights protest hearing/other deposits	\$ 29,607
Deposits held in custody for others	<u>268,032</u>
Total liabilities	\$ <u><u>298,818</u></u>

See independent auditor's report
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STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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 – net 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 an entity and the change in the Agency's net position resulting from the current year's

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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 criteria: total assets, deferred outflows of resources, liabilities, deferred inflows or resources,

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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.

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 typically recorded in the general fund because this is where the Legislature appropriated the funds for expenditure; however, appropriations may still result in current year expenditures in this fund.

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.

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.

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.

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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.

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.

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.

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.

Capital Project Fund:

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.

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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 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 unearned 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, 2016. 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

The balance due from federal sources is comprised of reimbursements to the Agency for grant and contract-related expenditures, but not received by year-end.

6. Investments

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

7. Interest and Loans Receivable

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

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

8. Capital Assets

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

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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 and accounts as of June 30th are required to be reverted to the State General Fund by

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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. Unearned Special Appropriations

The Agency received special appropriations for various capital projects. The funds are typically received entirely in the year of the appropriation, but the capital projects may take several years to complete. Special appropriations revenue is recognized in the year

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appropriated as it is measurable, available and has no eligibility requirements. Severance tax and general obligation bond proceed appropriations are generally recognized as revenue when the funds are expended as this is when the applicable eligibility requirements are met however the OSE considers the receipt of special appropriations as meeting the eligibility requirements and therefore recognizes the revenue upon receipt. If not spent during the year received, the appropriations are then restricted and included as part of non-reverting fund balance.

J. Budgets and Budgetary Accounting

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

1. No later than September 1, the Agency prepares a budget appropriation request and proposed expenditures and the means of financing them.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjusts the appropriation request that becomes the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request also submitting recommendations and adjustments before presentation to the Legislature.
5. Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget.
6. The legal level of budgetary control is at the appropriation program level.
7. Formal budgetary integration is employed as a management control device during the year. Budget adjustments were made in a legally permissible manner by increasing or reallocating appropriation unit totals as the need arose during the fiscal year ended June 30, 2016.
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.

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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 2016, the Agency did not anticipate any activity in Fund 324, and therefore, a budget was not established.

K. 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:

Account Name	Account Number/Type	Balance per Depository	Balance Per Financial Statements
General Fund			
State Treasurer	550-214	\$ 1,236,423	-
State Treasurer	550-864	2,497,146	3,733,569
International Bank - Cimarron	Demand	-	-
Petty Cash	on site	125	125
Total - General Fund		3,733,694	3,733,694
Irrigation Works Construction Fund			
State Treasurer	550-326	2,193,863	2,193,863
Improvement of the Rio Grande Fund			
State Treasurer	550-328	4,808,947	4,808,947
Capital Projects Fund			
State Treasurer	550-267	8,271,422	8,271,422
Ute Dam Operating Fund			
State Treasurer	550-324	21,856	21,856
Ute Dam Construction Fund			
State Treasurer	550-325	604,737	604,737
Pecos River Basin Land Management Fund			
State Treasurer	550-686	578,745	578,745
STB Capital Outlay Fund			
State Treasurer	550-892	4,292,114	4,292,114
Arizona Settlement Fund			
State Treasurer	550-3081	39,732,959	39,732,959
Indian Water Rights Settlement Fund			
State Treasurer	550-2017	640,360	640,360
General Fund Capital Outlay			
State Treasurer	550-931	1,000,000	1,000,000
Total governmental funds		\$ 65,878,697	65,878,697
Fiduciary Accounts			
Irrigation Fee Suspense Fund			
State Treasurer	550-849	\$ 29,607	29,607
Ute Dam Outlets - Wells Fargo*	Demand	16,516	16,516
US Army Corps of Engineers - Wells Fargo*	Demand	252,584	252,584
US Army Corps of Engineers - Wells Fargo*	Demand	111	111
Total fiduciary funds		\$ 298,818	298,818

* Interest bearing account

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

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

- (a) Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;
- (b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States 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.

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

Credit Risk for Investments

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

Interest Rate Risk for Investments

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

Custodial Credit Risk-Deposits

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

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, 2016, 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	\$ 16,516
1053	US Army Corps of Engineers	252,584
1178	US Army Corps of Engineers	111
	Total bank balance	269,211
	Less: FDIC coverage	(250,000)
	Uninsured public funds	\$ <u>19,211</u>

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

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

General Fund Investment Pool Reconciled

On August 8, 2016, the New Mexico Department of Finance and Administration, Financial Control Division issued a memorandum regarding the reconciliation of the State General Fund Investment Pool. It stated that the Financial Control Division in collaboration with the State Treasurer's Office, implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool and to the associated resources held by the State Treasurer's Office. This process now has been reviewed by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report for fiscal year 2015. Each review of the process deemed it to be adequate and the findings related to Cash Reconciliation were significantly reduced or eliminated. Successfully addressing this issue allowed the Department to reinstate \$100M that had been reserved as a loss contingency.

For fiscal year 2016 the following assertions are provided;

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

With specific reference to the OSE, the OSE has provided copies of the referenced diagnostic reports to the IPA. The OSE 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 OSE has control (i.e. collection, depositing, reconciling, bank statement validation, and documentation of outstanding reconciling items) of the cash it receipts and transfers to the state general fund and other state agencies pursuant to state statute.

The OSE has an interest in the State General Fund Investment Pool allocated between their funds operating under the oversight of SHARE and the State Treasurers Office. The cash transactions processed by the OSE flow through the state general fund investment pool.

The OSE 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 OSE. 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 and a review of outstanding warrants. The OSE conducts ongoing tracking of all cash deposits and financial transactions to ensure that they are accurately recorded and posted to the SHARE system. This monthly internal reconciliation of cash receipts and disbursements flowing through the OSE share of the state general fund investment pool provides management assurance that the balance

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reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period.

L. 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, 2016:

	Fund (326)		Fund (328)	
	Units	Market Value	Units	Market Value
Large Cap Active Pool	1,728	\$ 6,903,259	239	\$ 954,545
Core Bond Pool	1,901	5,892,375	269	833,033
Total investments		\$ 12,795,634		\$ 1,787,578

In accordance with GASB Statement 40, investments must be categorized to give an indication of the level of custodial credit risk assumed by the Agency at year-end. The New Mexico State Investment Council issues separate financial statements that disclose the types of investments, collateral pledged to secure investments and risk categorization of the Large Cap Active Pool and the Core Bond Pool. In addition to the investment earnings on the Large Cap Active Pool and the Core Bond Pool, the Irrigation Works Construction Fund and the Improvement of the Rio Grande Fund are also beneficiaries of the New Mexico Land Grant Permanent Fund and receive distributions of investment earnings from that permanent fund. The Agency also receives interest on overnight investments of cash balances made by the State Treasurer's Office. The following includes the components of investment earnings for fiscal year 2016:

	Fund (326)	Fund (328)	Fund (3081)
Interest and dividends on investments and cash deposits	\$ 328,059	44,730	-
Realized gain (loss) on sale of investments	604,006	81,817	-
Increase (decrease) in fair value of investments	(547,197)	(84,804)	-
Management fee expense	(42,435)	(5,906)	-
Interest on investments at STO	3,276	11,105	80,209
Distribution of investment earnings from LGPF	6,629,919	1,484,301	-
Investment earnings	\$ 6,975,628	1,531,243	80,209

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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.

Fair Value of Investments

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement Number 72, Fair Value Measurement and Application. This statement changes the definition of fair value and adds new disclosure requirements. GASB 72 is effective for periods beginning after June 15, 2015 (i.e., financial statements for June 30, 2016, and beyond).

The Agency holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Agency's mission, the Agency determines that the disclosures related to these investments only need to be disaggregated by major type. The Agency chooses a table format for the fair value disclosures.

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach: this uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach: this technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach: this approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. GASB 72 establishes a hierarchy of inputs to the valuation techniques listed above

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy's three levels are as follows:

Level 1

Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. (Examples: equity securities traded on an open market, actively traded mutual funds, and US treasuries)

Level 2

Are significant other observable inputs

- a) Quoted prices for similar assets or liabilities in active markets.
- b) Quoted prices for identical or similar assets or liabilities in markets that are not active.

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- c) Inputs other than quoted prices that are observable for the asset or liability, such as:
 - 1. Interest rates and yield curves observable at commonly quoted intervals,
 - 2. Implied volatilities, and
 - 3. Credit spreads.
- d) Market-corroborated inputs.

(Examples: a bond valued using market corroborated inputs such as yield curves, a bond valued using matrix pricing, and an interest rate swap valued using the LIBOR swap rate observed at commonly quoted intervals for the full term of the swap)

Level 3

Are significant unobservable inputs for an asset or liability (Examples: Commercial real estate valued using a forecast of cash flows based on a university's own data and an interest rate swap valued using data that is neither directly observable nor corroborated by observable market data)

The Agency has the following recurring fair value measurements as of June 30, 2016:

		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Large Cap Active Pool	\$	7,857,804	-	-
Core Bond Pool		-	6,725,408	-
Total	\$	7,857,804	6,725,408	-

M. Prepaid Expenses

The Agency is implementing a new Water Rights Business Process Management System, and the prepaid amount of \$113,800 as of June 30, 2016, represents approximately 20% of the total cost of the software licenses and training for this program. This cost will be expensed over a 60 month period.

N. 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, 2016, the allowance had a balance of \$27,314. This balance increased by \$850 during the fiscal year ended June 30, 2016, and no amounts previously written-off were recovered during the year.

O. Loan Receivables

As of June 30, 2016, the Agency had \$1,093,178 in notes due to the Agency from sixty-three entities. The financial statements reflect an allowance of \$28,769 for uncollectible loans. The Agency did not make any additions or deletions to the allowance accounts during the year ended June 30, 2016.

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P. 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, 2016, and the Agency recorded a receivable of \$37,904,015 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, 2016, 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>
				\$ 37,904,015
2017	\$ 9,040,000	6,700,943	2,728,537	31,203,072
2018	9,040,000	7,114,458	2,339,057	24,088,614
2019	9,040,000	7,553,492	1,925,542	16,535,122
2020	9,040,000	8,019,618	1,486,508	8,515,504
2021	9,040,000	8,515,504	1,020,385	-
	<u>\$ 45,200,000</u>	<u>37,904,015</u>	<u>9,500,029</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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Q. Capital Assets

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

	2015	Additions	Deletions	Reclass- ifications	2016
Capital assets not depreciated:					
Water rights & land	\$ 74,833,773	-	-	60,000	74,893,773
Land held for sale	60,000	-	-	(60,000)	-
Construction works-in-progress	-	750,755	-	(707,957)	42,798
Total capital assets not depreciated	<u>74,893,773</u>	<u>750,755</u>	<u>-</u>	<u>(707,957)</u>	<u>74,936,571</u>
Capital assets depreciated:					
Infrastructure	40,961,021	-	-	707,957	41,668,978
Buildings and structures	23,099	-	-	-	23,099
Furniture and fixtures	847,946	15,229	-	-	863,175
Machinery and equipment	3,685,201	153,423	-	-	3,838,624
Leasehold improvement	43,184	-	-	-	43,184
Vehicles	36,463	-	-	-	36,463
Total capital assets being depreciated	<u>45,596,914</u>	<u>168,652</u>	<u>-</u>	<u>707,957</u>	<u>46,473,523</u>
Total capital assets	<u>120,490,687</u>	<u>919,407</u>	<u>-</u>	<u>-</u>	<u>121,410,094</u>
Less accumulated depreciation:					
Infrastructure	(13,887,464)	(1,158,088)	-	-	(15,045,552)
Buildings and structures	(20,587)	(98)	-	-	(20,685)
Furniture and fixtures	(547,156)	(59,938)	-	-	(607,094)
Machinery and equipment	(3,364,266)	(124,313)	-	-	(3,488,579)
Leasehold improvement	(43,184)	-	-	-	(43,184)
Vehicles	(36,463)	-	-	-	(36,463)
Total accumulated depreciation	<u>(17,899,120)</u>	<u>(1,342,437)</u>	<u>-</u>	<u>-</u>	<u>(19,241,557)</u>
Net capital assets	<u>\$ 102,591,567</u>	<u>(423,030)</u>	<u>-</u>	<u>-</u>	<u>102,168,537</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 \$1,342,437 was charged to the agriculture, energy and natural resources function of governmental activities. There were no deletions in FY16.

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 sales price in the year it was sold. The Agency anticipates land sales to continue in the near future but did not have any sales in FY16.

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R. Commitments

The Agency completed several projects previously under construction in 2016. Below is a summary list of completed projects:

	<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Reclass- ification</u>	<u>Balance</u> <u>2016</u>	<u>Estimated Date of Completion / Project Cost</u>	<u>% of Completion</u>
Mimbres Metering Stations	\$ -	263,873	(263,873)	-	FY16 / \$263,873	Completed
Lower Pecos Metering Stations	-	263,853	(263,853)	-	FY16 / \$263,853	Completed
Rio Gallinas Metering Stations	-	7,924	(7,924)	-	FY16 / \$7,924	Completed
Nambe Pojoaque Tesuque Metering Stations	-	113,238	(113,238)	-	FY16 / \$113,238	Completed
Seven Rivers Electric Upgrade & Water Level Measurement System	-	59,069	(59,069)	-	FY16 / \$59,069	Completed
Los Lunas Silvery Minnow Refugium	-	42,798	-	42,798	FY17 / \$900,000	5%
	<u>\$ -</u>	<u>750,755</u>	<u>(707,957)</u>	<u>42,798</u>		

S. Lease Commitments

Buildings and Structures

The Agency leases office space at six 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 \$931,591 for the year ended June 30, 2016.

Machinery & Equipment

The Agency leases twenty-six copy machines, various servers and postage machines. The terms of the leases run from two to four 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 \$160,334 for the year ended June 30, 2016.

Vehicles

The Agency leases 66 vehicles on an annual basis from the New Mexico General Services Department. Lease expenditures under the leases were \$148,853 for the year ended June 30, 2016.

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 \$82,933 for the year ended June 30, 2016. Future lease payments will fluctuate and are dependent on the number of water rights leased and amounts adjusted for inflation.

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Future minimum lease payments are:

For the Year Ended June 30,		Building & Structures	Machinery Equipment	Rio Grande Water Rights	Total
2017	\$	862,071	75,868	82,933	1,020,872
2018		878,242	57,988	83,845	1,020,076
2019		840,638	6,066	84,767	931,471
2020		520,486	-	85,700	606,186
2021		285,571	-	86,643	372,214
2022		13,787	-	-	13,787
Total	\$	<u>3,400,795</u>	<u>139,923</u>	<u>423,888</u>	<u>3,964,605</u>

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

T. Long-Term Liabilities

Compensated Absences

Long-term liability activity related to compensated absences for the year ended June 30, 2016 was as follows:

	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>2016</u>	<u>Due Within One Year</u>
Compensated absences	\$ <u>1,155,483</u>	<u>1,831,791</u>	<u>(1,735,124)</u>	<u>1,252,150</u>	<u>1,252,150</u>

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 also takes charge in requesting appropriations to the legislature to fund Indian water rights settlements.

New Mexico currently has three Indian water rights settlements pending implementation: 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. For each of these three settlements, a settlement agreement was executed in 2005 or 2006 by the tribe or Pueblos and the State of New Mexico. The Aamodt and Taos Pueblo settlement agreements also were executed by other water right owning parties. Subsequent to the passage of federal legislation authorizing each of the settlements in 2009 and 2010, the Secretary of the US Department of Interior signed all three settlement agreements on behalf of the United States. Copies of the three fully-executed settlement

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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 the non-mandatory non-Indian ditch improvements. However, the settlement agreement allows the state to receive credits toward its cost share for projects already completed, or other future projects that would be determined by the US Department of Interior, Bureau of Reclamation (BOR), to meet the terms of the agreement. The Agency is working with other state agencies to determine respective responsibilities and to coordinate efforts related to funds expended by the state that may meet settlement guidelines.

2. Aamodt Pueblo Settlement

In May 2006, the State of New Mexico, the Pueblos of Nambe, Tesuque, Pojoaque, and San Ildefonso, the County of Santa Fe and the City of Santa Fe executed a Settlement Agreement designed to resolve the claims of the four Pueblos to the use of waters in the Nambe-Pojoaque-Tesuque (N-P-T), a tributary of the Rio Grande stream system in north central New Mexico. Federal legislation approving the Settlement Agreement was enacted into law in December 2010, when President Barack Obama signed the Claims Resolution Act of 2010. The Aamodt Settlement Act authorized the Secretary of Interior to execute, on behalf of the United States, a revised settlement agreement consistent with the Act (“conformed Settlement Agreement”) with the State of New Mexico and other settlement parties. The conformed Settlement Agreement was executed by the parties in March 2013. The Cost Sharing and System Integration Agreement has also been conformed to be consistent with the Aamodt Settlement Act, and was executed by the settlement parties in March, 2013. The Cost Sharing Agreement sets out the funding obligations of the governmental parties to the settlement and establishes the fundamental operational agreements among the parties that will be operating the regional system.

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 the 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. The Taos Settlement Act authorized the Secretary of Interior to execute, on behalf of the United States, a revised settlement agreement consistent with the Act (“conformed Settlement Agreement”) which was executed by all the settlement parties in January 2013.

The value of Indian Water Right Settlement projects contemplated in the three pending settlements are estimated at more than \$1.6 billion as of June 30, 2016. The State of New Mexico will not own the infrastructure once completed; the infrastructure and projects will be owned by tribal and local governments. Total settlement costs anticipated to date are as follows:

Aamodt	\$	205,630
Taos		144,000
Navajo		<u>1,255,383</u>
Total	\$	<u>1,605,013</u>

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The Agency estimates that the State of New Mexico will receive a credit towards its cost share of about \$28.8 million. A portion of the State's share includes \$10 million on non-mandatory expenditures for ditch rehabilitation under the Navajo Settlement.

As of the fiscal year ended June 30, 2016, the Agency expended \$41.8 million of the total of \$47.7 million in state funding received to-date restricted and appropriated to the Indian Water Rights Settlement Fund and agreements, with \$5.9 million unexpended as of June 30, 2016.

The Agency has recorded, as a special item, the estimated settlement expense in the government-wide financial statements, of \$79.2 million, as of June 30, 2016. This reflects adjustments reflecting revised estimates for the State's cost share under the Aamodt Settlement Agreement as well as a credit received for prior expenditures related to the settlement. Detail of activity for this long-term liability for the year ended June 30, 2016 is as follows:

	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>2016</u>
Indian Water					
Rights Settlement	\$ 79,161,052	-	(12,435,806)	(4,625,411)	62,099,835

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 amount due for these settlements and any related cost indexing is based on best estimates.

U. Interfund Receivables/Payables and Interfund Transfers

Interfund transfers for fiscal year 2016 are as follows:

<u>Transfers to:</u>	<u>Transfers from:</u>					<u>Total</u>
	<u>General Fund</u>	<u>30810</u>	<u>32600</u>	<u>32800</u>	<u>86400</u>	
General Fund	\$ -	258,204	9,480,047	1,571,451	179,144	11,488,846
32600	15	-	-	-	-	15
32800	22,259	-	-	-	-	22,259
86400	12,090	-	-	-	-	12,090
	\$ <u>34,364</u>	<u>258,204</u>	<u>9,480,047</u>	<u>1,571,451</u>	<u>179,144</u>	<u>11,523,210</u>

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The purposes for the transfers are as follows:

Amount	Fund		Purpose
	From:	To:	
\$ 179,144	86400	General Fund	Transfer to fund where expenditures budgeted
258,204	30810	General Fund	Transfer to fund where expenditures budgeted
9,480,047	32600	General Fund	Transfer to fund where expenditures budgeted
1,571,451	32800	General Fund	Transfer to fund where expenditures budgeted
15	General Fund	32600	Transfer to fund where expenditures budgeted
22,259	General Fund	32800	Transfer to fund where expenditures budgeted
12,090	General Fund	86400	Transfer to fund where expenditures budgeted
<u>\$ 11,523,210</u>			

Interfund receivables/payables are as follows:

Due to:	21400	26700	32600	32800	30810	Total
General Fund						
86400	\$ -	232,902	3,394,518	166,471	33,216	3,827,107
26700	55,939	-	-	-	-	55,939
32800	19,071	-	-	-	-	19,071
32600	22,259	-	-	-	-	22,259
	15	-	-	-	-	15
	<u>\$ 97,284</u>	<u>232,902</u>	<u>3,394,518</u>	<u>166,471</u>	<u>33,216</u>	<u>3,924,391</u>

V. 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, 2016 are:

General Fund Transfers	Out	In	Reason
Department of Game & Fish GPF #198	\$ -	182,300	Ute Lake & Eagle Nest Lake MOU
State General Fund Appropriation #853	427,710	19,278,800	General and Special Appropriations
Office of the Attorney General #170	-	-	Special appropriation Z50537 & reversion
Administrative Office of the Courts #512	720,035	-	Water Project Funds 72-4A-9 NMSA 1978
Department of Game & Fish GPF #198	85,987	-	Reversion of appropriation balance
	<u>\$ 1,233,732</u>	<u>19,461,100</u>	
Fund 93100 Transfers	Out	In	Reason
State General Fund Appropriation #853	\$ -	1,000,000	Special Appropriations
Fund 89200 Transfers	Out	In	Reason
Severance Tax Bonds - proceeds	\$ -	18,778,244	Drawdowns
Fund 32600 Transfers	Out	In	Reason
NM Department of Homeland Security #2038	\$ -	35,800	EO-2015-016 State DAP Gold King Mine spill

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W. Due to/from Other Agencies

The following amounts are due to/from other agencies:

Amount Due From Other State Agencies		Due From	
SHARE Fund No.	Amount	SHARE Fund No.	Amount
IWCF #32600	\$ 547,386	SIC #60100	\$ 547,386
IRGIF #32800	122,474	SIC #60100	122,474
STB #89200	829,974		
		DFA #11440	17,941
		DFA #11720	61,730
		DFA #11910	141,391
		DFA #20610	326,634
		DFA #50230	82,081
		DFA #10920	79,780
		DFA #11440	62,713
		DFA #20620	5,544
		DFA #35110	160
		DFA #50260	52,000
			829,974
Total	\$ 1,499,834		\$ 1,499,834

Amount Due To Other State Agencies		Due From	
SHARE Fund No.	Amount	SHARE Fund No.	Amount
Game & Fish #198	\$ 85,986	GF #21400	\$ 85,986
DoH #06105	20,172	GF #21400	20,172
Total	\$ 106,158		\$ 106,158

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

X. Due to State General Fund

Detail of amounts due to the State General Fund include:

Due for reversions	\$	415,384
State dated warrants		-
Amounts collected on behalf of the State of New Mexico		281,202
Total	\$	696,586

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Y. 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, 2016, follows:

General Fund (214, 864):	Restricted	Committed	Total
Emergency Drought Water Agreement	\$ 3,577,342	-	3,577,342
Adjudications	2,233,881	-	2,233,881
Conservation Water Agreement	1	-	1
Strategic Water Reserve	1,036,079	-	1,036,079
Develop a plan for modernizing the litigation and adjudication business systems	-	-	-
Private grant	15,000	-	15,000
	<u>6,862,303</u>	<u>-</u>	<u>6,862,303</u>
Capital Projects Fund (267)			
Capital Outlay Projects	-	8,055,879	8,055,879
Irrigation Works Construction Fund (326):			
Water conservation	12,445,012	-	12,445,012
Improvement of the Rio Grande Fund (328):			
Water conservation	6,574,787	-	6,574,787
Indian Water Rights Settlement Fund (2017):			
Public works - Indian Water Rights Settlement	640,360	-	640,360
New Mexico Unit Fund (3081):			
Public works - Arizona Water Settlement	39,174,074	-	39,174,074
STB Capital Outlay Fund (892):			
Public works - Indian Water Rights Settlement	4,529,887	-	4,529,887
Other funds:			
Land Management (324)	578,745	-	578,745
Dam construction and operations (325)	626,593	-	626,593
Capital outlay projects and IWR settlement (931)	1,000,000	-	1,000,000
	<u>\$ 2,205,338</u>	<u>-</u>	<u>1,205,338</u>

The government-wide statement of net position reports \$73,609,969 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

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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, 2016 are presented as net position reserved for subsequent year expenditure. Restricted net position at June 30, 2016 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>626,593</u>
Fund 326: Restricted for loans-restricted by third parties and statute (72-14-29, NMSA 1978)	<u>1,064,408</u>
Fund 326: Restricted for investigation and construction of water conservation projects-restricted by statute (72-14-23, NMSA 1978)	<u>12,445,012</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>6,574,787</u>
Fund 3081: Restricted for AZ Water Settlement - Gila Region	<u>39,174,074</u>
Fund 2017: Restricted for Indian Water Rights Settlement	<u>640,360</u>
<u>Restricted for subsequent year expenditures:</u>	
Fund 931: Restricted for Capital Outlay/Indian Water Rights	1,000,000
Fund 892: Restricted for Capital Outlay/ Indian Water Rights	4,529,888
Prepaid expense	113,800
Emergency Drought Water Agreement (Laws of 2012, Ch. 19, Sect. 4)	3,577,342
Adjudications (72-4A-9, NMSA 1978)	2,233,881
Strategic Water Reserve (72-14-3.3, NMSA 1978)	1,036,079
Private grant	<u>15,000</u>
Total restricted net position	\$ <u><u>73,609,969</u></u>

Z. 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>	
Fund 3081 - Settlement due from federal gov./revenue is not available	\$ <u><u>37,904,015</u></u>
 <u>Deferred Outflows of Resources</u>	
Fund 3081 - Deferred settlement revenue/revenue is not available	\$ <u><u>37,904,015</u></u>

AA. Deficit Unassigned Fund Balance

The General Fund shows a deficit unassigned fund balance as of June 30, 2016. The deficit is reconciled as follows:

<u>General fund (21400 & 86400)</u>	<u>2016</u>
Deficit fund balance-expended special appropriation before receiving funds	\$ <u><u>(1,856,940)</u></u>

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BB. 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, 2016 except as identified in Note AA.
- B. No funds exceeded approved budgetary authority for the year ended June 30, 2016.

CC. Concentrations

The Agency depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the Agency is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

DD. Evaluation of 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 1, 2016, 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 2016, expenditures and transfers from the fund exceeded revenue and transfers into the fund by close to \$1.7 million. This difference is projected to increase close to \$7 million in fiscal year 2018. Unless steps are taken to decrease the proportion of Irrigation Works Construction Fund used to support Agency operations, the fund will be fully depleted after fiscal year 2018. 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.

EE. Restatement

In FY15, journal entries made to reverse FY14 payables were duplicated. A restatement has been made to reverse the duplication. The restatement impacted the funds as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ <u>14,213</u>

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4. Other Notes

A. PERA Pension Plan

Plan Description

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2016.

The Agency, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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

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 – State Retiree Health Care Plan

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

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benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

Funding Policy

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

The 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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, 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

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soundness of the benefits provided under the Retiree Health Care Act.

The Agency's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were \$340,165, \$329,594 and \$316,852, respectively, which equal the required contributions for each year.

D. Risk Management

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

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

E. Contingencies

Grant Programs

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

Litigation

The Agency is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements include an accrual for loss contingencies that resulted from these proceedings (see following paragraph). 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.

Contingent Liability

A state district judge ruled that the Interstate Stream Commission violated the Open Meetings when approving two contracts involving a diversion project in southern part of the state. As a result of the ruling, the Agency is exposed to a liability of \$77,500 (previously reported as \$268,000 in the FY 2015 audit report) as the plaintiff is seeking reimbursement of legal costs. Because the liability has a high probability of being awarded and is estimable, an expense, classified as a 'special item', was recorded for the fiscal year ended 2015 and adjusted in the current year through a revenue classified as a 'special item'. The liability will be paid out of fund 3081.

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F. Land Grant Permanent Fund

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

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

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.

G. Related Parties

1. Inter & Intra-state Commissions

State Engineer, Tom Blaine, 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

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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. Tom Blaine, State Engineer, serves as Chair of the Water Trust Board. During fiscal year 2016, the Agency received direct transfers of \$3,600,175 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 2016 includes:

Condensed Balance Sheet (unaudited) As of June 30, 2016		Condensed Statement of Activities (unaudited) For the Year Ended June 30, 2016	
Assets		Revenues	
Cash	\$ 56,397	Assessments	\$ 109,286
Total Assets	56,397	Interest	6
Liabilities		Total Revenues	109,292
Accounts payable	38,841	Expenses	110,857
Total Liabilities	38,841	Change in fund balance	(1,565)
Fund Balance	17,556	Beginning fund balance	19,121
Total Liabilities and Fund Balance	\$ 56,397	Ending fund balance	\$ 17,556

During fiscal year 2016, Tom Blaine 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 2016, the Compact reimbursed the Agency for \$110,857 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, 2016**

	Special Revenue Funds	Capital Projects Funds	Total Other Funds
ASSETS:			
Cash	\$ -	-	-
State General Fund Investment Pool	6,654,645	1,000,000	7,654,645
Prepaid expenses	-	-	-
Receivables, net of allowance	-	-	-
Due from other funds	22,259	-	22,259
Due from other state agencies	122,474	-	122,474
Due from federal sources	-	-	-
Escrow deposits	-	-	-
Investments	1,787,578	-	1,787,578
Loan receivables, net of allowance	-	-	-
	<u>\$ 8,586,956</u>	<u>1,000,000</u>	<u>9,586,956</u>
LIABILITIES:			
Accounts payable	\$ -	-	-
Accrued pay roll	-	-	-
Payroll related liabilities	-	-	-
Due to other funds	166,471	-	166,471
Due to other state agencies	-	-	-
Unearned revenue	-	-	-
Due to State General Fund	-	-	-
Total liabilities	<u>166,471</u>	<u>-</u>	<u>166,471</u>
FUND BALANCE:			
Nonspendable	-	-	-
Restricted	8,420,485	1,000,000	9,420,485
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balance	<u>8,420,485</u>	<u>1,000,000</u>	<u>9,420,485</u>
Total liabilities and fund balance	<u>\$ 8,586,956</u>	<u>1,000,000</u>	<u>9,586,956</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	Special Revenue Funds	Capital Projects Funds	Total Other Funds
Revenues:			
Federal funds	\$ -	-	-
Charges for services	-	-	-
Investment earnings (loss)	1,531,244	-	1,531,244
Miscellaneous revenue	143,460	-	143,460
Total revenues	1,674,704	-	1,674,704
Expenditures:			
Agriculture, Energy and Natural Resources			
Current:			
Personal services and benefits	-	-	-
Contractual services	-	-	-
Other costs	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay:	-	-	-
Total expenditures	-	-	-
Excess (deficiency) of revenue over expenditures	1,674,704	-	1,674,704
Other financing sources (uses)			
Sale of land	-	-	-
Transfers in (out):			
General obligation bond proceeds	-	-	-
Severance tax bond proceeds	-	-	-
State General Fund appropriations FY16	-	1,000,000	1,000,000
Interfund transfers in	22,259	-	22,259
Interagency transfers in	-	-	-
Interfund transfers (out)	(1,571,450)	-	(1,571,450)
Interagency transfers (out)	-	-	-
Reversions	-	-	-
Special items:			
Indian Water Rights Settlement	-	-	-
Arizona Water Settlement	-	-	-
Total other financing sources (uses) & Special items:	(1,549,191)	1,000,000	(549,191)
Net change in fund balance	125,513	1,000,000	1,125,513
Fund balance, beginning	8,294,972	-	8,294,972
Fund balance, ending	\$ 8,420,485	1,000,000	9,420,485

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
As of June 30, 2016**

	324	325	328	686	2017	Total
	Ute Dam	Ute Dam	Improvement	Pecos	Indian	Special
	Operating	Construction	of the	River Basin	Water Rights	Revenue
	Fund	Fund	Rio Grande	Land Mgmt	Settlement	Funds
	Fund	Fund	Fund	Fund	Fund	Funds
ASSETS:						
Cash and cash equivalents	\$ -	-	-	-	-	-
State General Fund Investment Pool	21,856	604,737	4,808,947	578,745	640,360	6,654,645
Receivables, net of allowance	-	-	-	-	-	-
Due from other funds	-	-	22,259	-	-	22,259
Due from other state agencies	-	-	122,474	-	-	122,474
Due from federal sources	-	-	-	-	-	-
Escrow deposits	-	-	-	-	-	-
Investments	-	-	1,787,578	-	-	1,787,578
Loan receivables, net of allowance	-	-	-	-	-	-
	<u>\$ 21,856</u>	<u>604,737</u>	<u>6,741,258</u>	<u>578,745</u>	<u>640,360</u>	<u>8,586,956</u>
LIABILITIES:						
Accounts payable	\$ -	-	-	-	-	-
Accrued payroll	-	-	-	-	-	-
Payroll related liabilities	-	-	-	-	-	-
Due to other funds	-	-	166,471	-	-	166,471
Due to other state agencies	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Due to State General Fund	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>166,471</u>	<u>-</u>	<u>-</u>	<u>166,471</u>
FUND BALANCE:						
Nonspendable	-	-	-	-	-	-
Restricted	21,856	604,737	6,574,787	578,745	640,360	8,420,485
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total fund balance	<u>21,856</u>	<u>604,737</u>	<u>6,574,787</u>	<u>578,745</u>	<u>640,360</u>	<u>8,420,485</u>
Total liabilities and fund balance	<u>\$ 21,856</u>	<u>604,737</u>	<u>6,741,258</u>	<u>578,745</u>	<u>640,360</u>	<u>8,586,956</u>

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECT FUNDS
As of June 30, 2016**

	<u>931 GF Capital Outlay Fund</u>	<u>Total Capital Projects Funds</u>
ASSETS:		
Cash and cash equivalents	\$ -	-
State General Fund Investment Pool	1,000,000	1,000,000
Receivables, net of allowance	-	-
Due from other funds	-	-
Due from other state agencies	-	-
Due from federal sources	-	-
Escrow deposits	-	-
Investments	-	-
Loan receivables, net of allowance	-	-
	<u>\$ 1,000,000</u>	<u>1,000,000</u>
LIABILITIES:		
Accounts payable	\$ -	-
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>-</u>
FUND BALANCE:		
Nonspendable	-	-
Restricted	1,000,000	1,000,000
Committed	-	-
Assigned	-	-
Unassigned	-	-
Total fund balance	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities and fund balance	<u>\$ 1,000,000</u>	<u>1,000,000</u>

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, 2016

	324	325	328	686	2017	Total
	Ute Dam	Ute Dam	Improvement	Pecos	Indian	Special
	Operating	Construction	of the	River Basin	Water Rights	Revenue
	Fund	Fund	Rio Grande	Land Mgmt	Settlement	Funds
	Fund	Fund	Fund	Fund	Fund	Funds
Revenues:						
Federal funds	\$ -	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Investment earnings (loss)	-	-	1,531,244	-	-	1,531,244
Interest on loans	-	-	-	-	-	-
Sale of land	-	-	-	-	-	-
Miscellaneous revenue	-	52,955	90,505	-	-	143,460
Total revenues	-	52,955	1,621,749	-	-	1,674,704
Expenditures:						
Agriculture, Energy and Natural Resources						
Current:						
Personal services and benefits	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-
Other costs	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-
Excess (deficiency) of revenue over expendit	-	52,955	1,621,749	-	-	1,674,704
Other financing sources (uses)						
Sale of land	-	-	-	-	-	-
Transfers in (out):						
Interfund transfers in	-	-	22,259	-	-	22,259
Interagency transfers in	-	-	-	-	-	-
Interfund transfers (out)	-	-	(1,571,450)	-	-	(1,571,450)
Interagency transfers (out)	-	-	-	-	-	-
Reversions	-	-	-	-	-	-
Special items:						
Indian Water Rights Settlement	-	-	-	-	-	-
Arizona Water Settlement	-	-	-	-	-	-
Total other financing sources (uses) & Special Items	-	-	(1,549,191)	-	-	(1,549,191)
Net change in fund balance	-	52,955	72,558	-	-	125,513
Fund balance, beginning	21,856	551,782	6,502,229	578,745	640,360	8,294,972
Fund balance, ending	\$ 21,856	604,737	6,574,787	578,745	640,360	8,420,485

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, 2016

	931 GF Capital Outlay Fund	Total Capital Projects Funds
Revenues:		
Federal funds	\$ -	-
Charges for services	-	-
Investment earnings (loss)	-	-
Miscellaneous revenue	-	-
Total revenues	-	-
Expenditures:		
Agriculture, Energy and Natural Resources		
Current:		
Personal services and benefits	-	-
Contractual services	-	-
Other costs	-	-
Debt service:		
Principal	-	-
Interest	-	-
Capital outlay:	-	-
Total expenditures	-	-
Excess (deficiency) of revenue over expenditures	-	-
Other financing sources (uses)		
Sale of land	-	-
Transfers in (out):		
General obligation bond proceeds	-	-
Severance tax bond proceeds	-	-
State General Fund appropriations FY16	1,000,000	1,000,000
Interfund transfers in	-	-
Interagency transfers in	-	-
Interfund transfers out	-	-
Interagency transfers (out)	-	-
Reversions	-	-
Total other financing sources (uses):	1,000,000	1,000,000
Net change in fund balance	1,000,000	1,000,000
Fund balance, beginning	-	-
Fund balance, ending	\$ 1,000,000	1,000,000

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, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Bond proceeds	\$ -	-	-	-
Miscellaneous revenues	-	-	-	-
Federal funds	-	-	-	-
Total revenues	-	-	-	-
Fund Balance Budgeted	<u>8,954,463</u>	<u>8,954,463</u>		
Total	<u>8,954,463</u>	<u>8,954,463</u>		
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	954,463	954,463	45,700	908,763
Other	<u>8,000,000</u>	<u>8,000,000</u>	<u>852,884</u>	<u>7,147,116</u>
Total expenditures	<u>8,954,463</u>	<u>8,954,463</u>	<u>898,584</u>	<u>8,055,879</u>
Excess (deficiency) of revenues over expenditures	-	-	(898,584)	(898,584)
Other financing sources (uses)				
Bond proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Reversion	-	-	-	
Change in fund balance	-	-	(898,584)	
Fund balance, beginning of year			<u>8,954,463</u>	
Fund balance, end of year			<u>\$ <u>8,055,879</u></u>	

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Charges for services	\$ -	-	-	-
Miscellaneous	-	-	52,955	52,955
Total revenues	-	-	52,955	52,955
Fund Balance Budgeted	-	400,000		
Total	-	400,000		
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	150,000	-	150,000
Other	-	250,000	-	250,000
Total expenditures	-	400,000	-	400,000
Excess (deficiency) of revenues over expenditures	-	-	52,955	52,955
Other financing sources (uses)				
Sale of land	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Reversion	-	-	-	-
Change in fund balance	-	-	52,955	
Fund balance, beginning of year			551,782	
Fund balance, end of year			\$ 604,737	

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Land rental	\$ 58,700	58,700	90,505	31,805
Interest on investments	<u>1,550,000</u>	<u>1,550,000</u>	<u>1,531,244</u>	<u>(18,756)</u>
Total revenues	1,608,700	1,608,700	1,621,749	13,049
Fund Balance Budgeted	<u>347,900</u>	<u>347,900</u>		
Total	1,956,600	1,956,600		
 Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,956,600</u>	<u>1,956,600</u>	<u>1,621,749</u>	<u>(334,851)</u>
Other financing sources (uses)				
Operating transfers in	-	-	22,259	22,259
Operating transfers out	<u>(1,956,600)</u>	<u>(1,956,600)</u>	<u>(1,571,450)</u>	<u>385,150</u>
Total other financing sources (uses)	<u>(1,956,600)</u>	<u>(1,956,600)</u>	<u>(1,549,191)</u>	<u>407,409</u>
Change in fund balance	-	-	72,558	
Fund balance, beginning of year			<u>6,502,230</u>	
Fund balance, end of year			\$ <u><u>6,574,788</u></u>	

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Sale of land	\$ -	-	-	-
Miscellaneous revenue	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance Budgeted	<u>578,744</u>	<u>578,744</u>		
Total	<u>578,744</u>	<u>578,744</u>		
 Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	304,825	304,825	-	304,825
Other	<u>273,919</u>	<u>273,919</u>	<u>-</u>	<u>273,919</u>
Total expenditures	<u>578,744</u>	<u>578,744</u>	<u>-</u>	<u>578,744</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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	-	-	-	-
Fund balance, beginning of year			<u>578,744</u>	
Fund balance, end of year			<u>\$ 578,744</u>	

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SEVERANCE TAX BOND CAPITAL OUTLAY FUND (892)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues				
Bond proceeds	\$ 31,952,299	31,952,299	20,725,924	(11,226,375)
Total revenues	31,952,299	31,952,299	20,725,924	(11,226,375)
Fund Balance Budgeted	4,985,692	4,985,692		
Total	36,937,991	36,937,991		
 Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	5,740,235	13,857,635	13,539,254	318,381
Other	31,109,632	23,037,232	5,651,671	17,385,561
Capital outlay	43,124	43,124	43,124	-
Total expenditures	36,892,991	36,937,991	19,234,049	17,703,942
Excess (deficiency) of revenues over expenditures	45,000	-	1,491,875	1,491,875
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(45,000)	-	-	-
Total other financing sources (uses)	(45,000)	-	-	-
Change in fund balance	-	-	1,491,875	
Fund balance, beginning of year			3,038,012	
Fund balance, end of year			\$ 4,529,887	
 Reconciliation of Budgetary Basis to Fund Financial Statement				
Change in fund balance per budgetary basis				\$ 1,491,875
Adjustments:				
Current year accounts payable that required a request to pay current-year bills out of the FY 2017 budget				-
Prior year accounts payable paid out of FY 2016 budget				-
Total GAAP basis net change in fund balance - fiscal year ended June 30, 2016				\$ 1,491,875

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Bond proceeds	\$ -	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance Budgeted	<u>1,189,410</u>	<u>1,189,410</u>		
Total	1,189,410	1,189,410		
 Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	<u>1,189,410</u>	<u>1,189,410</u>	<u>-</u>	<u>1,189,410</u>
Total expenditures	<u>1,189,410</u>	<u>1,189,410</u>	<u>-</u>	<u>1,189,410</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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	-	-	-	
Fund balance, beginning of year			<u>640,360</u>	
Fund balance, end of year			<u>\$ 640,360</u>	

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Miscellaneous	\$ -	-	950,000	950,000
Total revenues	<u>-</u>	<u>-</u>	<u>950,000</u>	<u>950,000</u>
Fund Balance Budgeted	<u>218,000</u>	<u>218,000</u>		
Total	<u>218,000</u>	<u>218,000</u>		
Expenditures				
Agricultural, Energy and Natural Resources				
Current:				
Personal services and employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>218,000</u>	<u>218,000</u>	<u>950,000</u>	<u>(732,000)</u>
Other financing sources (uses)				
Operating transfers in	-	-	12,090	12,090
Operating transfers out	<u>(218,000)</u>	<u>(218,000)</u>	<u>(179,144)</u>	<u>38,856</u>
Total other financing sources (uses)	<u>(218,000)</u>	<u>(218,000)</u>	<u>(167,054)</u>	<u>50,946</u>
Reversion	-	-	-	-
Change in fund balance	-	-	782,946	
Fund balance, beginning of year			<u>2,720,137</u>	
Fund balance, end of year			<u>\$ 3,503,083</u>	

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
GENERAL FUND CAPITAL OUTLAY FUND (931)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2016

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

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, 2016

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Irrigation Fees Suspense Fund (849)				
Assets				
Cash and investments	\$ 29,607	-	-	29,607
Total assets	<u>29,607</u>	<u>-</u>	<u>-</u>	<u>29,607</u>
Liabilities				
Water rights protest hearing/other depos	29,607	-	-	29,607
Total liabilities	<u>29,607</u>	<u>-</u>	<u>-</u>	<u>29,607</u>
United States Army Corps of Engineers (1053)				
Assets				
Cash and investments	252,508	76	-	252,584
Total assets	<u>252,508</u>	<u>76</u>	<u>-</u>	<u>252,584</u>
Liabilities				
Deposits held in custody for others	251,329	76	-	251,405
Accounts payable	1,179	-	-	1,179
Total liabilities	<u>252,508</u>	<u>76</u>	<u>-</u>	<u>252,584</u>
Ute Dam Outlet Works Pipeline Replacement Project (1052)				
Assets				
Cash and investments	16,511	5	-	16,516
Total assets	<u>16,511</u>	<u>5</u>	<u>-</u>	<u>16,516</u>
Liabilities				
Deposits held in custody for others	16,511	5	-	16,516
Total liabilities	<u>16,511</u>	<u>5</u>	<u>-</u>	<u>16,516</u>
Rio Grande Floodway Fund (1178)				
Assets				
Cash and investments	111	-	-	111
Total assets	<u>111</u>	<u>-</u>	<u>-</u>	<u>111</u>
Liabilities				
Deposits held in custody for others	111	-	-	111
Total liabilities	<u>111</u>	<u>-</u>	<u>-</u>	<u>111</u>
Total				
Assets				
Cash and investments	298,737	81	-	298,818
Total assets	<u>298,737</u>	<u>81</u>	<u>-</u>	<u>298,818</u>
Liabilities				
Water rights protest hearing/other depos	29,607	-	-	29,607
Accounts payable	1,179	-	-	1,179
Deposits held in custody for others	267,951	81	-	268,032
Total liabilities	<u>\$ 298,737</u>	<u>81</u>	<u>-</u>	<u>298,818</u>

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SCHEDULE OF JOINT POWERS AGREEMENTS, MEMORANDUM OF UNDERSTANDING
AND OTHER GOVERNMENTAL AGREEMENTS
For the Year Ended June 30, 2016

<u>Agreements</u>	<u>Participants</u>	<u>Responsible Party</u>	<u>Description</u>	<u>Beginning and Ending Dates</u>	<u>Total estimated project amount and amount applicable to Agency</u>	<u>Amount contributed current fiscal year</u>	<u>Audit Responsibility</u>	<u>Fiscal agent & responsible reporting entity</u>
1 Investments of certain ISC monies	Interstate Stream Commission/ NM State Investment Council	Interstate Stream Commission	Invests certain monies 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	\$927,280.00	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 thru completion	3/11/2002 thru completion	\$3,669,000.00	\$1,424,000.00	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	\$11,200.00 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	\$45,000.00	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	\$45,000.00	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 Los Lunas Silvery Minnow Refugium w supply and waste water return flow cre	Village of Los Lunas/ NM General Services Dept/ ISC	Interstate Stream Commission	LLSMR water supply	10/21/2012 thru 10/21/2026	Base plus per 1000 gallon rate & 921.328 acre ft @ 88.71 per acre ft	\$1,431.05 \$81,731.01	All Entities	All Entities
10 Constructing Ecosystem Revitalization Route 66	US Army Corp/ Interstate Stream	Interstate Stream Commission	Constructing Ecosystem Revitalization Route 66	6/12/2008 thru 6/12/2018	\$100.00 acre foot	N/A	Both Entities	Both Entities
11 Vegetation Management	Interstate Stream Commission US Bureau of Reclamation	Interstate Stream Commission	Vegetation Management at Caballo and Elephant Butte	10/1/2011 thru 9/30/2016	\$75,000.00	\$75,000.00	Both Entities	Both Entities

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<u>Agreements</u>	<u>Participants</u>	<u>Responsible Party</u>	<u>Description</u>	<u>Beginning and Ending Dates</u>	<u>Total estimated project amount and amount applicable to Agency</u>	<u>Amount contributed current fiscal year</u>	<u>Audit Responsibility</u>	<u>Fiscal agent & responsible reporting entity</u>
12 Reduce energy & optimize operations Seven Rivers	Cal Poly Corp. Interstate Stream Commission	Interstate Stream Commission	Reduce energy & optimize operations Seven Rivers	4/11/2016 6/30/2016	\$28,180.00	\$15,944.69	Both Entities	Both Entities
13 Economic Study of Southwestern NM	Office of the State Engineer Regents of NM State	Interstate Stream Commission	Economic Study of SW NM	11/23/2015 6/30/2016	\$16,100.00	\$16,100.00	Both Entities	Both Entities
14 Water Modification Program	Colorado Water Conservation Board Interstate Stream Commission	Interstate Stream Commission	Water Modification Program	1/14/2013 9/30/2017	\$20,000.00	\$0.00	Both Entities	Both Entities
15 Water and Soil Analysis	NM Institute of Mining, NM Bureau of Geology / Interstate Stream Commission	Interstate Stream Commission	Water and Soil Analysis	7/1/2015 6/30/2016	\$34,460.00	\$28,800.00	Both Entities	Both Entities
16 San Agustin Plains Groundwater Monit	NM Institute of Mining, NM Bureau of Geology / Interstate Stream Commission	OSE/WRAP	Well Measurement & documentation	2/18/2016 6/30/2016	\$11,500.00	\$11,500.00	Both Entities	Both Entities
17 Operation & Maintenance of stream gaging stations	US Dept of Interior / Costilla Compact Commission	Costilla Compact	Operation & Maintenance of stream gaging stations	7/1/2015 6/30/2016	\$30,700.00	\$30,700.00	Both Entities	Both Entities
18 Operation & Maintenance of stream flow	US Dept of Interior /ISC	Interstate Stream Commission	Operation & Maintenance stream flow gages	7/1/2015 6/30/2016	\$484,791.00	\$484,791.00	Both Entities	Both Entities
19 Operation & Maintenance of stream flow	US Dept of Interior /OSE	OSE	Operation & Maintenance stream flow gages Gallinas	7/1/2015 6/30/2016	\$8,580.00	\$8,580.00	Both Entities	Both Entities
20 Data Collection and Investigation	US Dept of Interior /OSE	OSE	Data Collection and Investigation	7/1/2015 6/30/2016	\$199,385.00	\$199,385.00	Both Entities	Both Entities
21 Water Resource Investigations	US Dept of Interior /ISC	Interstate Stream Commission	Water Resource Investigation Rio Grande CC	7/1/2015 6/30/2016	\$4,510.00	\$4,510.00	Both Entities	Both Entities
22 Water Resource Investigations	US Dept of Interior /ISC	Interstate Stream Commission	Water Resource Investigation Mesilla Basin	7/1/2015 6/30/2016	\$36,208.00	\$36,208.00	Both Entities	Both Entities
23 Restoration of native wetland habitat	US Fish & Wildlife Services /ISC	Interstate Stream Commission	Restoration of native wetland habitat	12/10/2015 6/30/2016	\$6,897.15	\$6,897.15	Both Entities	Both Entities
24 Taos Pueblo Indian Water Rights Settle	US Bureau of Reclamation / ISC	Interstate Stream Commission	Mutual Benefits Projects	1/28/2016 until completion	\$12,000,000.00 max contribution	\$12,000,000.00	Both Entities	Both Entities
25 Rio Grande Floodway	US Army Corps of Engineers / ISC	Interstate Stream Commission	Rio Grade Floodway Bosque del Apache Unit	8/11/2014 until completion	As budgeted per each department	\$1,050,000.00	Both Entities	Both Entities
26 SNOTEL precipitation & stream flow dat	USDA, NFC NRCS / ISC	Interstate Stream Commission	Precipitation & streamflow data	7/1/2012 6/30/2017	\$100,000.00	\$20,000.00	Both Entities	Both Entities

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For the Year Ended June 30, 2016**

<u>Agreements</u>	<u>Participants</u>	<u>Responsible Party</u>	<u>Description</u>	<u>Beginning and Ending Dates</u>	<u>Total estimated project amount and amount applicable to Agency</u>	<u>Amount contributed current fiscal year</u>	<u>Audit Responsibility</u>	<u>Fiscal agent & responsible reporting entity</u>
27 Fiscal agent for NM CAP entity	City of Deming/ ISC	Interstate Stream Commission	Second Fiscal Agent	1/7/2016 6/30/2016	\$208,864.00	\$173,877.19	Both Entities	Both Entities
28 Expand existing effluent reuse system	City of Deming/ ISC	Interstate Stream Commission	Expand effluent re-use system	1/8/2016 6/30/2019	\$1,750,000.00	\$0.00	Both Entities	Both Entities
29 Rehabilitation planning, design & construction Probable Maximum Precipitation Study	State of Colorado/ OSE	OSE/WRAP	Rehabilitation planning, design & construction	3/9/2016 6/30/2018	\$350,000.00	\$50,000.00	Both Entities	Both Entities
30 LRG system adjudication	City of Las Cruces/ OSE	OSE/LAP	LRG Adjudication	7/1/2015 6/30/2016	\$21,506.23	\$16,506.23	Both Entities	Both Entities
31 Water Lease NMSLO MRG Habitat Restoration	NM State Land Office/ ISC	Interstate Stream Commission	Water Lease for MRG Habitat Restored by NMSLO	6/12/2014 6/12/2024	\$50,000.00	\$0.00	Both Entities	Both Entities
32 Water Rights Lease for LLSMR	Property Control Division - GSD/ ISC	Interstate Stream Commission	Water Rights Lease for LLSMR	12/21/2006 12/21/2016	\$50.00 acre ft	\$0.00	Both Entities	Both Entities
33 Emergency Drought Water Agreement	Middle Rio Grande Conservancy District/ Bureau of Reclamation/ ISC	Interstate Stream Commission	Emergency Drought Water Agreement MRG	4/25/2016 6/30/2019	\$950,000.00	\$0.00	All Entities	All Entities
34 Carlsbad Project Water Lease	US Bureau of Reclamation/ ISC	Interstate Stream Commission	Carlsbad Project Water Lease	8/20/2007 8/20/2032	\$130.00 acre ft. 1100 acre ft minimum plus operations & maint.	As Budgeted per each Department	Both Entities	Both Entities

STATE OF NEW MEXICO
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SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2016

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
Fund 267						
Special, Deficiency, Specific and Capital Outlay Appropriations						
Laws of 2014, Chapter 66, Section 37, Subsection 1	A142155	1,000,000	03/11/2014-06/30/2018	\$ 232,902	-	767,098
Laws of 2014, Chapter 66, Section 37, Subsection 2	A142156	2,000,000	03/11/2014-06/30/2018	690,318	264,839	1,044,844
Laws of 2014, Chapter 66, Section 37, Subsection 3	A142157	2,000,000	03/11/2014-06/30/2018	20,900	1,741	1,977,359
Laws of 2014, Chapter 66, Section 38	A142158	4,000,000	03/11/2014-06/30/2018	-	4,000,000	-
Total Capital Outlay Appropriations - Fund 267		9,000,000		944,120	4,266,580	3,789,301
Total unexpended balance						\$ 8,055,881
FUND 892 STB Capital Outlay						
Laws of 2013, Chapter 202, Section 9	A093122	3,993,070.00	07/01/2013-06/30/2016	3,993,070	-	-
Laws of 2013, Chapter 202, Section 48	A093790	293,093.00	07/01/2015-06/30/2017	127,903	132,765	32,425
Laws of 2011, Chapter 5, Section 16	A111303	15,000,000.00	07/01/2011-06/30/2016	10,470,114	35,693	4,494,194
Laws of 2012, Chapter 64, Section 15, Subsection 2	A121395	60,000.00	06/01/2012-06/30/2016	58,765	-	1,235
Laws of 2012, Chapter 64, Section 15, Subsection 6	A121397	30,000.00	06/01/2012-06/30/2016	29,971	-	29
Laws of 2012, Chapter 64, Section 15, Subsection 8	A121398	9,000.00	06/01/2012-06/30/2016	8,100	900	-
Laws of 2012, Chapter 64, Section 15, Subsection 9	A121399	10,000.00	06/01/2012-06/30/2016	10,000	-	-
Laws of 2012, Chapter 64, Section 15, Subsection 10	A121400	100,000.00	06/01/2012-06/30/2016	-	-	100,000
Laws of 2013, Chapter 202, Section 33	A121401	15,000.00	06/01/2013-06/30/2016	15,000	-	-
Laws of 2012, Chapter 64, Section 15, Subsection 12	A121402	60,000.00	06/01/2012-06/30/2016	59,749	-	251
Laws of 2012, Chapter 64, Section 15, Subsection 13	A121403	33,000.00	06/01/2012-06/30/2016	24,274	-	8,726
Laws of 2012, Chapter 64, Section 15, Subsection 16	A121404	20,000.00	06/01/2012-06/30/2016	19,998	-	2
Laws of 2012, Chapter 64, Section 15, Subsection 20	A121405	100,000.00	06/01/2012-06/30/2016	99,917	83	-
Laws of 2012, Chapter 226, Section 21, Subsection 1	A131420	125,000.00	06/01/2013-06/30/2017	125,000	-	-
Laws of 2012, Chapter 226, Section 21, Subsection 2	A131421	2,700,000.00	06/01/2013-06/30/2017	2,566,671	116,259	17,070
Laws of 2012, Chapter 226, Section 21, Subsection 3	A131422	20,000.00	06/01/2013-06/30/2017	-	20,000	-
Laws of 2012, Chapter 226, Section 21, Subsection 4	A131423	100,000.00	06/01/2013-06/30/2017	100,000	-	-
Laws of 2012, Chapter 226, Section 21, Subsection 5	A131424	1,800,000.00	06/01/2013-06/30/2017	1,800,000	-	-
Laws of 2012, Chapter 226, Section 21, Subsection 6	A131425	255,000.00	06/01/2013-06/30/2017	255,000	-	-
Laws of 2012, Chapter 226, Section 21, Subsection 7	A131426	265,000.00	06/01/2013-06/30/2017	265,000	-	-
Laws of 2012, Chapter 226, Section 21, Subsection 8	A131427	82,000.00	06/01/2013-06/30/2017	82,000	-	-
Laws of 2012, Chapter 226, Section 21, Subsection 9	A131428	50,000.00	06/01/2013-06/30/2017	-	50,000	-
Laws of 2012, Chapter 226, Section 21, Subsection 10	A131429	50,000.00	06/01/2013-06/30/2017	-	-	50,000
Laws of 2012, Chapter 226, Section 21, Subsection 11	A131430	25,000.00	06/01/2013-06/30/2017	25,000	-	-

STATE OF NEW MEXICO
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For the Year Ended June 30, 2016

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
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 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 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	29,599	15,401	-
Laws of 2012, Chapter 226, Section 29, Subsection 8	A131575	41,850	06/01/2013-06/30/2017	41,003	848	-
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	4,514	12,802	2,684
Laws of 2012, Chapter 226, Section 29, Subsection 12	A131579	80,000	06/01/2013-06/30/2017	49,814	30,186	-
Laws of 2012, Chapter 226, Section 29, Subsection 13	A131580	72,000	06/01/2013-06/30/2017	58,389	13,611	-
Laws of 2012, Chapter 226, Section 29, Subsection 14	A131581	12,000	06/01/2013-06/30/2017	11,938	-	62
Laws of 2012, Chapter 226, Section 29, Subsection 15	A131582	30,400	06/01/2013-06/30/2017	20,000	10,400	-
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	-	-
Laws of 2015, Chapter 147, Section 53	A131586	6,000	06/01/2013-06/30/2017	2,900	3,100	-
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	14,999	25,001	-
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	25,289	4,711	-
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	9,684	30,317	-
Laws of 2012, Chapter 226, Section 29, Subsection 28	A131595	4,800	06/01/2013-06/30/2017	4,800	-	-
Laws of 2015, Chapter 147, Section 53	A131596	16,000	06/01/2013-06/30/2017	-	16,000	-
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	83,309	10,691	-
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	33,699	-	301
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 36	A131604	15,000	06/01/2013-06/30/2017	15,000	-	-

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Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expenditures To Date	Out-standing Encumbrances	Unencumbered Balances
Laws of 2012, Chapter 226, Section 29, Subsection 38	A131605	25,000	06/01/2013-06/30/2017	-	25,000	-
Laws of 2014, Chapter 64, Section 59	A131606	16,000	03/11/2014-06/30/2017	-	16,000	-
Laws of 2012, Chapter 226, Section 29, Subsection 41	A131608	25,000	06/01/2013-06/30/2017	22,480	2,520	-
Laws of 2016, Chapter 83, Section 70	A141581	215,500	03/09/2016-06/30/2020	-	-	215,500
Laws of 2014, Chapter 66, Section 15, Subsection 1	A141585	30,000	03/11/2014-06/30/2018	30,000	-	-
Laws of 2014, Chapter 66, Section 15, Subsection 2	A141586	50,000	03/11/2014-06/30/2018	49,985	-	15
Laws of 2014, Chapter 66, Section 15, Subsection 3	A141587	6,000,000	03/11/2014-06/30/2018	957,139	4,935,010	107,851
Laws of 2014, Chapter 66, Section 15, Subsection 4	A141588	2,100,000	03/11/2014-06/30/2018	920,120	845,064	334,817
Laws of 2014, Chapter 66, Section 15, Subsection 6	A141590	800,000	03/11/2014-06/30/2018	-	800,000	-
Laws of 2014, Chapter 66, Section 15, Subsection 7	A141591	400,000	03/11/2014-06/30/2018	-	-	400,000
Laws of 2014, Chapter 66, Section 15, Subsection 8	A141592	300,000	03/11/2014-06/30/2018	-	300,000	-
Laws of 2014, Chapter 66, Section 15, Subsection 9	A141593	300,000	03/11/2014-06/30/2018	103,625	192,093	4,282
Laws of 2014, Chapter 66, Section 15, Subsection 10	A141594	300,000	03/11/2014-06/30/2018	157,983	142,017	-
Laws of 2014, Chapter 66, Section 21, Subsection 1	A141792	40,000	03/11/2014-06/30/2018	-	-	40,000
Laws of 2014, Chapter 66, Section 21, Subsection 2	A141793	45,000	03/11/2014-06/30/2018	-	45,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 3	A141794	25,000	03/11/2014-06/30/2018	25,000	-	-
Laws of 2014, Chapter 66, Section 21, Subsection 4	A141795	50,000	03/11/2014-06/30/2018	11,227	38,773	-
Laws of 2014, Chapter 66, Section 21, Subsection 5	A141796	53,000	03/11/2014-06/30/2018	-	-	53,000
Laws of 2014, Chapter 66, Section 21, Subsection 7	A141798	60,000	03/11/2014-06/30/2018	-	60,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 8	A141799	60,000	03/11/2014-06/30/2018	-	-	60,000
Laws of 2014, Chapter 66, Section 21, Subsection 9	A141800	35,000	03/11/2014-06/30/2018	16,184	18,816	-
Laws of 2014, Chapter 66, Section 21, Subsection 10	A141801	25,000	03/11/2014-06/30/2018	6,388	15,150	3,461
Laws of 2014, Chapter 66, Section 21, Subsection 11	A141802	15,000	03/11/2014-06/30/2018	-	15,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 12	A141803	100,000	03/11/2014-06/30/2018	10,730	89,270	-
Laws of 2014, Chapter 66, Section 21, Subsection 13	A141804	45,000	03/11/2014-06/30/2018	-	45,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 14	A141805	20,000	03/11/2014-06/30/2018	-	-	20,000
Laws of 2015, Chapter 147, Section 59	A141806	25,000	03/11/2014-06/30/2018	-	25,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 16	A141807	20,000	03/11/2014-06/30/2018	15,437	4,563	-
Laws of 2014, Chapter 66, Section 21, Subsection 17	A141808	50,000	03/11/2014-06/30/2018	20,916	29,084	-
Laws of 2014, Chapter 66, Section 21, Subsection 18	A141809	34,000	03/11/2014-06/30/2018	-	-	34,000
Laws of 2014, Chapter 66, Section 21, Subsection 19	A141810	50,000	03/11/2014-06/30/2018	22,656	27,344	-
Laws of 2014, Chapter 66, Section 21, Subsection 20	A141811	80,000	03/11/2014-06/30/2018	-	-	80,000
Laws of 2014, Chapter 66, Section 21, Subsection 21	A141812	25,000	03/11/2014-06/30/2018	-	-	25,000
Laws of 2014, Chapter 66, Section 21, Subsection 22	A141813	30,000	03/11/2014-06/30/2018	30,000	-	-
Laws of 2014, Chapter 66, Section 21, Subsection 23	A141814	71,000	03/11/2014-06/30/2018	71,000	-	-

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2016

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
Laws of 2014, Chapter 66, Section 21, Subsection 24	A141815	20,000	03/11/2014-06/30/2018	-	-	20,000
Laws of 2014, Chapter 66, Section 21, Subsection 25	A141816	75,000	03/11/2014-06/30/2018	-	75,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 26	A141817	25,000	03/11/2014-06/30/2018	-	25,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 27	A141818	75,000	03/11/2014-06/30/2018	5,885	69,115	-
Laws of 2014, Chapter 66, Section 21, Subsection 28	A141819	67,000	03/11/2014-06/30/2018	67,000	-	-
Laws of 2014, Chapter 66, Section 21, Subsection 29	A141820	50,000	03/11/2014-06/30/2018	50,000	-	-
Laws of 2014, Chapter 66, Section 21, Subsection 30	A141821	15,000	03/11/2014-06/30/2018	-	-	15,000
Laws of 2014, Chapter 66, Section 21, Subsection 31	A141822	15,000	03/11/2014-06/30/2018	-	15,000	-
Laws of 2014, Chapter 66, Section 21, Subsection 32	A141823	25,000	03/11/2014-06/30/2018	25,000	-	-
Laws of 2014, Chapter 66, Section 21, Subsection 33	A141824	50,000	03/11/2014-06/30/2018	50,000	-	-
Laws of 2014, Chapter 66, Section 21, Subsection 34	A141825	900,000	03/11/2014-06/30/2018	220,190	2,864	676,946
Laws of 2014, Chapter 66, Section 21, Subsection 35	A141826	450,000	03/11/2014-06/30/2018	212,464	-	237,536
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 1	A150483	300,000	06/17/2015-06/30/2019	-	-	300,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 2	A150484	400,000	06/17/2015-06/30/2019	-	-	400,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 3	A150485	35,000	06/17/2015-06/30/2019	-	30,276	4,724
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 4	A150486	375,000	06/17/2015-06/30/2019	-	-	375,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 5	A150487	375,000	06/17/2015-06/30/2019	375,000	-	-
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 6	A150488	150,000	06/17/2015-06/30/2019	-	-	150,000
Laws of 2015 1st SS, Chapter 3, Section 19	A150489	8,200,000	06/17/2015-06/30/2019	8,200,000	-	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 1	A150630	40,000	06/17/2015-06/30/2019	-	40,000	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 2	A150631	30,000	06/17/2015-06/30/2019	-	-	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 3	A150632	30,000	06/17/2015-06/30/2019	19,829	7,341	2,830
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 5	A150633	15,000	06/17/2015-06/30/2019	-	15,000	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 6	A150634	20,000	06/17/2015-06/30/2019	-	-	20,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 7	A150635	100,000	06/17/2015-06/30/2019	24,863	75,138	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 8	A150636	30,000	06/17/2015-06/30/2019	-	-	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 9	A150637	10,000	06/17/2015-06/30/2019	-	-	10,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 10	A150638	15,000	06/17/2015-06/30/2019	-	-	15,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 11	A150639	65,000	06/17/2015-06/30/2019	-	65,000	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 12	A150640	10,000	06/17/2015-06/30/2019	-	-	10,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 13	A150641	10,000	06/17/2015-06/30/2019	-	10,000	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 14	A150642	30,000	06/17/2015-06/30/2019	29,220	780	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 15	A150643	25,000	06/17/2015-06/30/2019	-	-	25,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 16	A150644	25,000	06/17/2015-06/30/2019	-	-	25,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 17	A150645	40,050	06/17/2015-06/30/2019	-	40,050	-

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2016

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 18	A150646	10,000	06/17/2015-06/30/2019	-	-	10,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 19	A150647	40,000	06/17/2015-06/30/2019	12,050	27,950	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 20	A150648	50,000	06/17/2015-06/30/2019	-	-	50,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 21	A150649	65,000	06/17/2015-06/30/2019	65,000	-	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 22	A150650	100,000	06/17/2015-06/30/2019	-	-	100,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 23	A150651	80,000	06/17/2015-06/30/2019	19,773	60,227	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 24	A150652	30,000	06/17/2015-06/30/2019	-	-	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 25	A150653	65,000	06/17/2015-06/30/2019	52,000	11,333	1,667
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 26	A150654	39,000	06/17/2015-06/30/2019	-	39,000	-
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 27	A150655	50,000	06/17/2015-06/30/2019	50,000	-	-
Laws of 2015 1st SS, Chapter 3, Section 84	A151083	2,000,000	06/17/2015-06/30/2019	2,000,000	-	-
Laws of 2015 1st SS, Chapter 3, Section 89	A151088	2,000,000	06/17/2015-06/30/2019	1,745,000	-	255,000
Laws of 2015 1st SS, Chapter 3, Section 90, Subsection 1	A151089	420,000	06/17/2015-06/30/2019	420,000	-	-
Laws of 2015 1st SS, Chapter 3, Section 90, Subsection 2	A151090	1,000,000	06/17/2015-06/30/2019	1,000,000	-	-
Laws of 2016, 1st SS, Chapter 1, Section 3F	A16A2656	500,000	03/09/2016-06/30/2020	-	-	500,000
Laws of 2016, Chapter 81, Section 17, Subsection 1	A16A2241	589,000	03/09/2016-06/30/2020	-	-	589,000
Laws of 2016, Chapter 81, Section 17, Subsection 2	A16A2242	550,000	03/09/2016-06/30/2020	-	-	550,000
Laws of 2016, Chapter 81, Section 17, Subsection 3	A16A2243	1,000,000	03/09/2016-06/30/2020	-	-	1,000,000
Laws of 2016, Chapter 81, Section 21, Subsection 21	A16A2360	94,000	03/09/2016-06/30/2020	-	-	94,000
Total Capital Outlay Appropriations - Fund 892		<u>59,139,066</u>		<u>37,749,610</u>	<u>9,487,849</u>	<u>11,901,608</u>
Total unexpended balance						\$ 21,389,457
Reconciliation to fund balance (892)						
Less: Severance tax bond - revenue accrued on reimbursement basis						<u>(16,859,570)</u>
Fund Balance after reconciling items						\$ 4,529,887
Fund balance per financial statements						<u>4,529,887</u>
Difference						<u>\$ -</u>

STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2016

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
FUND 214 OSE General Fund						
Laws of 2014, Chapter 63, Section 7, Subsection 16	Z40716	100,000.00	03/11/2014-06/30/2016	99,039	-	961
Laws of 2015, Chapter 101, Section 5, Subsection 37	Z50537	2,000,000.00	04/09/2016-06/30/2016	1,856,940	88,520	54,540
Laws of 2016 SS, Chapter 11, Section 5, Item 32	ZA0532	1,500,000.00	02/29/2016-06/30/2017	-	-	1,500,000
Total Special Appropriations - Fund 214		3,600,000		1,955,979	88,520	1,555,501
FUND 2017 Indian Water Rights Settlement						
Laws of 2009, Chapter 5, Section 2, Subsection B (11)	A093009	10,000,000		9,359,640	-	640,360
FUND 931 General Fund Capital Outlay						
Laws of 2015 1st SS, Chapter 3, Section 48	A151032	500,000.00	06/17/2015-06/30/2019	-	-	500,000
Laws of 2015 1st SS, Chapter 3, Section 49	A151033	500,000.00	06/17/2015-06/30/2019	-	-	500,000
Expired appropriations that have been designated for reversion as of the fiscal year end are as follows:						
Laws of 2014, Chapter 63, Section 7, Subsection 16	Z40716	100,000.00	03/11/2014-06/30/2016	99,039	-	961

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF VENDOR INFORMATION
For the Year Ended June 30, 2016**

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
2016-01-ISC	RFP	William J. Miller Engineers Inc	\$ 500,000		1511 Third Street Santa Fe, NM 87505-3415	Y	N	On Call Professional Engineering Services
		Weston Solutions	\$ 500,000		3840 Commons Ave NE Albuquerque, NM 87109	Y	N	
		OCCAM/EC Consulting Engineers	Not Awarded		6100 Seagull Street NE, Suite B203 Albuquerque, NM 87109-2500	Y	N	
		Souder Miller & Associates	\$ 500,000		2904 Rodeo Park Drive East Bldg 100 Santa Fe, NM 87505	Y	N	
		WH Pacific	Not Awarded		6501 Americas Parkway NE, Suite 400 Albuquerque, NM 87110	Y	N	
		Portage, Inc.	\$ 500,000		200 DP Road - Suite 200 Los Alamos, New Mexico 87544	N	N	
		Sullivan Design Group, Inc.	Not Awarded		227 E Palace Avenue Santa Fe, NM 87504	Y	Y	
		Wilson & Company Inc	\$ 500,000		4900 Lang Ave NE Albuquerque, NM 87109	Y	N	
50-550-00-00671	RFP	No proposals received - readvertised	Not Awarded		N/A	N/A	N/A	Cabresto Dam & Reservoir Liner Project
60-550-16-00676	RFP	N/A - Due date 6/30/2016 No award made in FY 16	Not Awarded		N/A	N/A	N/A	Cabresto Dam & Reservoir Liner Project



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

Mr. Tim Keller, State Auditor
and
Mr. Caleb Chandler, Chairman
Tom Blaine, 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, 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 (the Agency), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and the combining and individual funds and related budgetary comparisons of the Agency, presented as supplementary information, and have issued our report thereon dated December 1, 2016.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency: 2016-001.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency's Responses to Findings

The Agency's response to the 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 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 1, 2016

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016**

SECTION II AND III- FINANCIAL STATEMENT FINDINGS

Finding	Status of Current and Prior Year Findings	Type of Finding*
Prior:		
2015-001-VIOLATION OF OPEN MEETINGS ACT	RESOLVED	G
Current:		
2016-001-CONTROLS OVER DISBURSEMENTS	Current	B

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance to Federal Awards
- G. Non-compliance with State Audit Rule, NM State Statutes, NMAC or other entity compliance

2016-001 – CONTROLS OVER DISBURSEMENTS

Type of Finding: B

Condition:

While examining invoices paid for a construction project totaling \$55,549, it was noted that an invoice for professional services was overpaid by \$12,751.

Criteria:

Support for all current charges must be present and should be matched to services or goods rendered before a payment voucher is prepared.

Effect:

The Agency overpaid for services rendered.

Cause:

The employee responsible in accounts payable apparently referenced the wrong amount on the invoice and the review process for accounts payable did not catch the error.

Recommendation:

We recommend that the payments vouchers be reviewed for the proper support for the current charges.

Management Response:

Due to staffing changes and shortages, staff that does not normally process contract payments and is not familiar with the various contract invoicing formats processed the referenced invoice. The highlighted portion of the invoice listed a Fee Amount, Fee Invoiced to Date and Fee Remaining. It appears the Fee Remaining amount was picked up by the person preparing the voucher as the amount due. The Chief Financial Officer reviewed the voucher for payment but did not catch that the current invoice amount was listed higher up on the invoice nor did the DFA auditor catch the mistake as part of their audit processes.

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016**

However, the overpayment was accounted for during the course of the work on the project and the agency did not overpay the vendor in total. The Purchase Order related to the noted invoice was set up for \$53,935.16. The final cost related to the PO was \$49,795.88 plus GRT \$3,626.17 for a total of \$53,422.05. OSE/ISC paid out \$53,422.05 to the vendor.

OSE/ISC already has the internal controls in place with invoices being reviewed by the contract manager who verifies that the invoice is correct and that goods/services have been received and the Program Manager or designee who verifies that proper PO is referenced and the budget is sufficient prior to being submitted to Program Support for processing. In Program Support the accounts payable staff processes the voucher and either the Accounts Payable/Receivable Supervisor or Chief Financial Officer review the vouchers and approve them in SHARE. We have reviewed the process and believe this instance is a rare case of human error rather than an issue of insufficient internal controls. While staffing shortages persist in the accounts payable/receivable area with 2 of 3 positions currently vacant, the Accounts Payable/Receivable Supervisor and Chief Financial Officer have been sharing those duties with the existing Accounts Payable/Receivable staff position who has taken on the agency runner duties in addition to his own. Once the Program Support Director allows for the filling of those vacancies in light of the 5.5% FY17 Budget decrease, we will have the time to properly cross train staff in all types of accounts payable/receivable processing and thus reduce the likelihood of these rare errors even further.

The Program Support Director, Chief Financial Officer and Accounts Payable/Receivable Supervisor have met to discuss the concerns surrounding the vacant positions. A consensus has been reached that at least one position should be filled, although a restructuring or redistribution of job duties will likely be part of the solution due to budget constraints during the foreseeable future.

Finding Resolution Timeline:

The Program Support Director is reviewing budget availability currently. Plans to evaluate restructuring of job duties in order to fill at least one position are underway with the intent to advertise the position in January 2017.

Designated Employee Position:

Program Support Director

**STATE OF NEW MEXICO
OFFICE OF THE STATE ENGINEER/INTERSTATE STREAM COMMISSION
EXIT CONFERENCE
For the Year Ended June 30, 2016**

An exit conference was held on December 1, 2016. Present at the exit conference were:

Tom Blaine	State Engineer
Jeff Primm	Director, Program Support
Monica Trujillo	Chief Financial Officer
Farley Vener, CPA, CFE	Independent auditor, Hinkle + Landers, P.C.
Maclen Enriquez, CPA	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.