



State of
New Mexico
Office of the State
Engineer/
Interstate Stream
Commission

Financial Statements
For the Year Ended June 30, 2017



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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
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June 30, 2017

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STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Official Roster
June 30, 2017

<u>Name</u>	<u>Title</u>
Tom Blaine, PE	State Engineer
John Longworth	Acting 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

Interstate Stream Commission

Caleb Chandler	Chairman, Clovis
Tom Blaine	Member, 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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Tim Keller
New Mexico State Auditor
Tom Blaine, P.E.
New Mexico 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 for the General Fund and major special revenue funds of the New Mexico Office of the State Engineer/Interstate Stream Commission (the "Agency"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of 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 Agency'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 Agency'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 financial statement presentation.

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 New Mexico Office of the State Engineer/Interstate Stream Commission, as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Office of the State Engineer are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities that are attributable to the transactions of the Office of the State Engineer. They do not purport to and do not present fairly the financial position of the State of New Mexico as of June 30, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10 through 18 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.

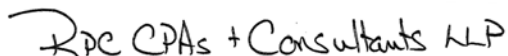
Other Information

Our audit was conducted for the purpose of forming opinions on the Agency's financial statements and the budgetary comparisons. Supporting Schedules I through IV required by 2.2.2 NMAC, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied during 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 October 31, 2017 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* in considering the Agency's internal control over financial reporting and compliance.



RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
October 31, 2017

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Management's Discussion & Analysis
June 30, 2017

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, 2017. 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 head of the Agency is the State Engineer who is appointed by the Governor and confirmed by the state Senate.

The Interstate Stream Commission Director serves as the deputy state engineer. The Legislature created the Interstate Stream Commission ("the 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. By statute the State Engineer is a member of the Commission and serves as its Secretary.

Although separate under state law, the 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 Commission was designated as the Interstate Stream Compact Compliance and Water Development Program of the Office of the State Engineer. The Commission has broad powers to investigate, protect, conserve and develop New Mexico's waters, including both interstate and intrastate stream systems.

The Commission's authority under state law includes negotiating with other states to settle interstate stream controversies. New Mexico is signatory to eight interstate stream compacts; specifically: the Colorado River; Upper Colorado River Basin; La Plata River; Animas-La Plata Project; Rio Grande; Costilla Creek; Pecos River; and Canadian River compacts. The Commission is also responsible for compliance with provisions of the U.S. Supreme Court's decisions governing water allocation on the Pecos, Canadian and Gila rivers.

STATE OF NEW MEXICO
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June 30, 2017

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 that 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.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements consist of three components: government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to the private-sector business. These statements consist of the statement of net position and the statement of activities.

The statement of net position presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the Office of the State Engineer is improving or deteriorating.

The statement of activities presents information showing how the Agency's net positions changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide Statement of Activities of the Agency reflects the activities of the Agency by its governmental functions. The Statement of Activities identifies financial resources that are directly related to the governmental function. Financial resources that are not specifically related to the governmental functions are shown as general resources in the bottom portion of this statement. The Statement of Activities also shows the change in net position for the fiscal year.

The government-wide financial statements can be found on pages 20-21 of this report.

STATE OF NEW MEXICO
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June 30, 2017

Fund Financial Statements - Governmental Funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The agency, like other agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the agency are considered **Governmental Funds**.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements and resources.

The governmental funds use the modified accrual basis of accounting whereby revenues are recognized when they become available and measurable as net current assets. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental fund financial statements and the government-wide financial statements.

In addition to the General Fund, the agency maintains the Irrigation Works Construction Fund and the New Mexico Unit fund, which are considered to be major funds. A fund is considered to be a major fund depending on the amount of its assets, liabilities, revenues, or expenditures.

The Office of the State Engineer adopts an annual appropriated budget for all of its funds. Budgetary comparison statements have been provided for the major governmental funds to demonstrate budget compliance.

The basic governmental fund financial statements can be found on pages 22-33 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 34-65 of this report.

Budgetary Comparisons. GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules present both the original and the final approved budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the agency's budgetary basis (modified accrual). Budgetary information is provided at the approved budget level to demonstrate compliance with legal requirements.

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Office of the State Engineer / Interstate Stream Commission
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June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$159,139,695 as of June 30, 2017. The comparative statement of net position as of June 30 was as follows:

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets		
Investment in State Treasurer's General Fund Investment Pool	\$ 34,943,018	\$ 65,878,572
Investments	55,509,554	14,583,212
Other current assets	<u>10,349,816</u>	<u>12,222,035</u>
Total current assets	<u>100,802,388</u>	<u>92,683,819</u>
Noncurrent assets:		
Capital assets, net	102,737,736	102,168,537
Other noncurrent assets	<u>24,973,036</u>	<u>29,928,423</u>
Total noncurrent assets	<u>127,710,772</u>	<u>132,096,960</u>
 Total assets	 <u>\$ 228,513,160</u>	 <u>\$ 224,780,779</u>
 Liabilities		
Current liabilities	<u>\$ 8,446,130</u>	<u>\$ 6,151,344</u>
Noncurrent liabilities		
Indian water rights settlement	60,849,835	62,099,835
Other noncurrent liabilities	<u>77,500</u>	<u>77,500</u>
Total noncurrent liabilities	<u>60,927,335</u>	<u>62,177,335</u>
 Total liabilities	 <u>69,373,465</u>	 <u>68,328,679</u>
 Net position		
Invested in capital assets net of related debt	102,737,736	102,168,537
Restricted	81,047,359	73,609,969
Unrestricted	<u>(24,645,400)</u>	<u>(19,326,406)</u>
 Total net position	 <u>159,139,695</u>	 <u>156,452,100</u>
 Total liabilities and net position	 <u>\$ 228,513,160</u>	 <u>\$ 224,780,779</u>

The increase in net position of \$2,687,595 from the previous year is primarily due to the Agency's efforts to reduce and meet expenditure budgets in response to state wide reductions in funding of recent years.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Management's Discussion & Analysis
June 30, 2017

Changes in Net Position: The overall decrease/increase in the agency's net position is shown in the following schedule:

	<u>2017</u>	<u>2016</u>
Expenditures:		
Agriculture, Energy, and Natural Resources	\$ 44,296,734	\$ 57,809,074
Program revenue	<u>3,094,988</u>	<u>6,749,483</u>
General revenues		
General Fund appropriations	18,267,200	19,278,800
Investment income	4,134,860	8,610,488
Miscellaneous	<u>4,405,789</u>	<u>1,000,000</u>
Total general revenues	<u>26,807,849</u>	<u>28,889,288</u>
Other financing sources (uses)		
Interagency transfers, net	14,035,623	18,350,544
Reversions FY17	(1,505,959)	(623,732)
Adjustment to Indian Water Rights Settlement	1,250,000	17,061,217
Arizona Water Settlement	3,301,828	2,728,537
Other financing sources	<u>-</u>	<u>190,500</u>
Total other financing sources	<u>17,081,492</u>	<u>37,707,066</u>
Change in net position	2,687,595	15,536,763
Net position, beginning	<u>156,452,100</u>	<u>140,915,337</u>
Net position, ending	<u>\$ 159,139,695</u>	<u>\$ 156,452,100</u>

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FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

Governmental Funds

The focus of the agency's governmental funds is to provide information on near-term inflows, and balances of expendable resources. Such information is more useful in assessing the agency's financial position than the government-wide statements, because the fund financial statements better reflect the reality that certain revenues are legally restricted for specific purposes and cannot be used to cover the costs of other operations.

Budgetary Highlights

The Agency's General Fund budget for fiscal year 2017 was \$43,225,062 (\$24,402,900 Personnel Services and Employee Benefits; \$9,766,377 Contractual Services; \$9,055,785 Other). The budgeted amounts include multi-year appropriations budgeted. Budget Adjustment Requests (BARs) totaled \$814,941 for fiscal year 2017. At fiscal year end, the agency expended \$33,279,825 reverting back the balance of the fiscal year approved budget to the State General Fund of \$505,959 which will be recorded in the FY18 fiscal year audit.

Changes in Assets and Long-Term Liabilities of the Agency

The Agency does not carry any debt, but does have a long-term liability related to an Indian Water Rights Settlement. See Note 13 for additional information. The decrease in long-term liabilities of \$1,250,000 is due to adjustments to the expected obligation of the Agency under the settlement.

Long term commitments of the Agency are future construction of infrastructure and meters related to the State's water sources. These projects are primarily funded by the State Appropriations noted in the Schedule of Special, Deficiency, Specific and Capital Outlay Appropriations. The funds are used through both the granting of monies to local governments and direct contracting.

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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, 2017 were as follows:

Type	Measure	FY17 Target Level	FY17 Year-End Result	Met Target
Water Resource & Allocation Program:				
Output	Average number of unprotested new and pending applications processed per month	85	36	no
Explanatory	Number of unprotested and unaggrieved water right applications backlogged	625	416	yes
Outcome	Number of dams inspected per year and notices delivered to owners notifying them of potential problems	100	49	no
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%	90%	no
Outcome	Number of transactions abstracted annually into the water administration technical engineering resource system database	23,000	14,566	no
Outcome	Percent readiness to perform active water resource management within lower Rio Grande river basin	95%	92%	no

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Type	Measure	FY17 Target Level	FY17 Year-End Result	Met Target
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 the calendar year, in acre feet	>=0	137,900	yes
Outcome	Cumulative state-line delivery credit per the Rio Grande river compact and amended decree at the end of the calendar year, in acre feet	>=0	-20,300	no
Litigation and Adjudication Program:				
Outcome	Number of offers to defendants in adjudications	600	566	no
Outcome	Percent of all water rights that have judicial determinations	62%	66%	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 can significantly draw on available Agency resources. In addition, much of the Agency's activities in relation to litigation and adjudication of water rights are intertwined with the judicial system, and consequently, future decisions of the courts can have a significant impact on Agency operations and the financial position of the Agency.

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. 2017 was the first year in over five fiscal years in which expenditures and transfers from the fund have not substantially exceeded revenue and transfers into the fund. As the Irrigation Works Construction Fund is depleted, it is anticipated that the Agency will have to increase reliance on the its other trust fund, the Improvement to the Rio Grande Fund (#328), resulting in that funds' balances also being in jeopardy of depletion 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 in future fiscal years, which would impact the Agency's operations and the Agency's ability to carry out its mission and statutory mandates.

STATE OF NEW MEXICO
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June 30, 2017

Request for Information

This financial report is designed to provide a general overview of the agency's finances. Questions concerning any of the information provided in this report or any request for additional financial information should be addressed to:

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

Jeff Primm, Director, Program Support

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(505) 476-0536

Monica Trujillo, Chief Financial Officer

Monica.trujillo1@state.nm.us

Office of the State Engineer/Interstate Stream Commission

P.O. Box 25102

Santa Fe, NM 87504-5102

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Statement of Net Position
June 30, 2017

Exhibit A-1

	<u>Governmental Activities</u>
Assets	
Current assets:	
Petty cash	\$ 125
Investment in State Treasurer's General Fund Investment Pool	34,943,018
Investments	55,509,554
Accounts receivable, net of allowance	711,059
Due from other state agencies	1,262,735
Due from federal sources	289,009
Interest receivable, net of allowance	972,430
Settlement due from federal government, current portion	7,114,458
Total current assets	<u>100,802,388</u>
Noncurrent assets:	
Loan receivables, net of allowance	884,422
Settlement due from federal government, net of current portion	24,088,614
Capital assets, net of accumulated depreciation	<u>102,737,736</u>
Total noncurrent assets	<u>127,710,772</u>
<i>Total assets</i>	<u><u>\$ 228,513,160</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 4,198,483
Accrued payroll	828,252
Due to other state agencies	641,520
Due to State General Fund	1,588,428
Compensated absences payable	1,189,447
Total current liabilities	<u>8,446,130</u>
Noncurrent liabilities	
Indian Water Rights Settlement	60,849,835
Contingent liability	<u>77,500</u>
<i>Total liabilities</i>	<u>69,373,465</u>
Net position	
Net investment in capital assets	102,737,736
Restricted for special appropriations	81,047,359
Unrestricted	<u>(24,645,400)</u>
<i>Total net position</i>	<u>159,139,695</u>
<i>Total liabilities and net position</i>	<u><u>\$ 228,513,160</u></u>

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 Activities
For the Year Ended June 30, 2017

Exhibit A-2

	<u>Governmental Activities</u>
Expenses	
Agriculture, Energy, and Natural Resources	
Current:	
Personal services and employee benefits	\$ 22,961,011
Contractual services	10,263,249
Other costs	9,689,786
Depreciation expense	<u>1,382,688</u>
<i>Total expenses</i>	<u>44,296,734</u>
Program revenue	
Operating grants and contributions	<u>3,094,988</u>
<i>Total program revenues</i>	<u>3,094,988</u>
Net program expense	<u>(41,201,746)</u>
General revenues	
General Fund appropriation	18,267,200
Investment income	4,134,860
Miscellaneous	<u>4,405,789</u>
<i>Total general revenues</i>	<u>26,807,849</u>
Other financing sources (uses)	
Transfer in (out):	
Interagency transfers in	14,483,564
Reversions FY17	(1,505,959)
Interagency transfers out	(447,941)
Adjustment to Indian Water Rights Settlement	1,250,000
Arizona Water Settlement	<u>3,301,828</u>
<i>Total other financing sources (uses)</i>	<u>17,081,492</u>
Change in net position	2,687,595
Net position, beginning	<u>156,452,100</u>
<i>Net position, ending</i>	<u><u>\$ 159,139,695</u></u>

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
June 30, 2017

	21400/86400 General Fund	32600 Irrigation Works Construction Fund	30810 New Mexico Unit Fund
<i>Assets</i>			
Petty cash	\$ 125	\$ -	\$ -
Investment in State Treasurer's General Fund Investment Pool	6,246,632	1,234,971	5,181,570
Investments	-	14,564,260	38,912,501
Accounts receivable, net of allowance	396,409	279,650	35,000
Interest receivable, net of allowance	-	9,659	962,771
Settlement due from federal government	-	-	31,203,072
Due from other funds	2,408,104	300	-
Due from other state agencies	-	521,068	-
Due from federal sources	289,009	-	-
Loan receivables, net of allowance	-	884,422	-
<i>Total assets</i>	<u>\$ 9,340,279</u>	<u>\$ 17,494,330</u>	<u>\$ 76,294,914</u>
<i>Liabilities</i>			
Accounts payable	\$ 1,615,948	\$ 10,000	\$ 368,701
Accrued payroll	828,252	-	-
Due to other funds	300	2,066,325	21,520
Due to other state agencies	273,579	-	-
Due to State General Fund	588,428	-	-
<i>Total liabilities</i>	<u>3,306,507</u>	<u>2,076,325</u>	<u>390,221</u>
<i>Deferred inflows of resources</i>			
Settlement due from federal government	-	-	31,203,072
Interest on settlement due from federal government	-	-	962,771
<i>Fund balances</i>			
Nonspendable	-	884,422	-
Spendable:			
Restricted	5,070,913	14,533,583	43,738,850
Unassigned (deficit)	962,859	-	-
<i>Total fund balances</i>	<u>6,033,772</u>	<u>15,418,005</u>	<u>43,738,850</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 9,340,279</u>	<u>\$ 17,494,330</u>	<u>\$ 76,294,914</u>

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

<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 125
22,279,845	34,943,018
2,032,793	55,509,554
-	711,059
-	972,430
-	31,203,072
-	2,408,404
741,667	1,262,735
-	289,009
-	884,422
<u>\$ 25,054,305</u>	<u>\$ 128,183,828</u>
\$ 2,203,834	\$ 4,198,483
-	828,252
320,259	2,408,404
367,941	641,520
1,000,000	1,588,428
<u>3,892,034</u>	<u>9,665,087</u>
-	31,203,072
-	962,771
-	884,422
21,162,271	84,505,617
-	962,859
<u>21,162,271</u>	<u>86,352,898</u>
<u>\$ 25,054,305</u>	<u>\$ 128,183,828</u>

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

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STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2017

Exhibit B-1
Page 2 of 2

Total fund balance for the governmental funds (Exhibit B-1)	\$ 86,352,898
Amounts reported for governmental activities in the Statement of Net Position is different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, and therefore are not reported in the funds.	102,737,736
Some revenue is not considered "available" and is considered to be unavailable revenue in the fund financial statements, but is considered revenue in the statement of activities. They include:	
Settlement due from federal government	31,203,072
Accrued interest receivable on settlement due from federal government	962,771
Long-term liabilities are not due and payable in in the current period and therefore are not reported in the funds. They include:	
Indian Water Rights Settlement	(60,849,835)
Compensated absences payable	(1,189,447)
Contingent liability	(77,500)
<i>Total net position (Exhibit A-1)</i>	\$ 159,139,695

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

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	21400/86400 General Fund	32600 Irrigation Works Construction Fund	30810 New Mexico Unit Fund
<i>Revenues</i>			
Federal sources	\$ 349,793	\$ -	\$ -
Investment income	-	1,787,009	1,912,501
Interest on loans	-	36,108	121,749
Miscellaneous income	2,649,790	2,968,259	35,000
<i>Total revenues</i>	<u>2,999,583</u>	<u>4,791,376</u>	<u>2,069,250</u>
<i>Expenditures</i>			
Agriculture, Energy, and Natural Resources			
Current:			
Personal services and employee benefits	23,023,713	-	-
Contractual services	5,560,767	-	5,285,588
Other costs	4,487,554	-	1,072,683
Capital outlay	321,591	-	-
<i>Total expenditures</i>	<u>33,393,625</u>	<u>-</u>	<u>6,358,271</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(30,394,042)</u>	<u>4,791,376</u>	<u>(4,289,021)</u>
<i>Other financing sources (uses)</i>			
State General Fund appropriation	18,267,200	-	-
Transfers in (out):			
Interfund transfers in	11,944,984	-	-
Interagency transfers in	1,682,300	6,320,881	-
Interfund transfers out	-	(9,203,672)	(186,203)
Interagency transfers out	(80,000)	-	-
Reversions FY17	(505,959)	-	-
Arizona Water Settlement	-	-	9,040,000
<i>Total other financing sources (uses)</i>	<u>31,308,525</u>	<u>(2,882,791)</u>	<u>8,853,797</u>
<i>Net change in fund balance</i>	914,483	1,908,585	4,564,776
Fund balance, beginning of year	<u>5,119,289</u>	<u>13,509,420</u>	<u>39,174,074</u>
<i>Fund balance, end of year</i>	<u><u>\$ 6,033,772</u></u>	<u><u>\$ 15,418,005</u></u>	<u><u>\$ 43,738,850</u></u>

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

<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 349,793
277,493	3,977,003
-	157,857
<u>1,497,935</u>	<u>7,150,984</u>
<u>1,775,428</u>	<u>11,635,637</u>
-	23,023,713
138,969	10,985,324
4,193,381	9,753,618
<u>844,391</u>	<u>1,165,982</u>
<u>5,176,741</u>	<u>44,928,637</u>
<u>(3,401,313)</u>	<u>(33,293,000)</u>
-	18,267,200
-	11,944,984
6,480,383	14,483,564
(2,555,109)	(11,944,984)
(367,941)	(447,941)
(1,000,000)	(1,505,959)
<u>-</u>	<u>9,040,000</u>
<u>2,557,333</u>	<u>39,836,864</u>
(843,980)	6,543,864
<u>22,006,251</u>	<u>79,809,034</u>
<u>\$ 21,162,271</u>	<u>\$ 86,352,898</u>

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

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STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Exhibit B-2
Page 2 of 2

Net change in fund balance - governmental funds	\$ 6,543,864
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay	1,165,982
Additions recorded under contract services	799,457
Depreciation expense	(1,382,688)
Expenses in the Statement of Activities that do not consume current financial resources are not reported as expenditures in the funds:	
Changed in deferred inflows for Arizona Water Settlement	(5,738,171)
Change in estimate of Indian Water Rights Settlement revenue	1,250,000
Decrease in compensated absences	62,703
Loss on disposal of assets	(13,552)
<i>Change in net position (Exhibit A-2)</i>	\$ 2,687,595

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

STATE OF NEW MEXICO

Exhibit C-1

Office of the State Engineer / Interstate Stream Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund (21400/86400)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues</i>				
Federal sources	\$ 174,900	\$ 534,453	\$ 349,793	\$ (184,660)
State sources	-	-	-	-
Investment income	-	-	-	-
Interest on loans	-	-	-	-
Miscellaneous income	3,852,800	3,952,800	2,649,790	(1,303,010)
<i>Total revenues</i>	<u>4,027,700</u>	<u>4,487,253</u>	<u>2,999,583</u>	<u>(1,487,670)</u>
<i>Expenditures</i>				
Current:				
Personal services and benefits	24,474,000	24,402,900	23,023,713	1,379,187
Contractual services	9,610,651	9,766,377	5,560,767	4,205,610
Other costs	8,325,470	9,055,785	4,809,145	4,246,640
<i>Total expenditures</i>	<u>42,410,121</u>	<u>43,225,062</u>	<u>33,393,625</u>	<u>9,831,437</u>
<i>Other financing sources (uses)</i>				
General appropriations	18,267,200	18,267,200	18,267,200	-
Transfers in	20,012,800	20,012,800	13,627,284	(6,385,516)
Transfers out	(621,900)	(621,900)	(80,000)	541,900
Reversion	-	-	(505,959)	(505,959)
<i>Total other financing sources</i>	<u>37,658,100</u>	<u>37,658,100</u>	<u>31,308,525</u>	<u>(6,349,575)</u>
<i>Excess (deficiency) of revenues over expenditures and other financing resources</i>	<u>\$ (724,321)</u>	<u>\$ (1,079,709)</u>	<u>\$ 914,483</u>	<u>\$ 1,994,192</u>

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

STATE OF NEW MEXICO

Exhibit C-2

Office of the State Engineer / Interstate Stream Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Irrigation Works Construction Fund (32600)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues</i>				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Investment income	6,275,000	6,275,000	1,787,009	(4,487,991)
Interest on loans	46,400	46,400	36,108	(10,292)
Miscellaneous income	620,000	620,000	2,968,259	2,348,259
<i>Total revenues</i>	<u>6,941,400</u>	<u>6,941,400</u>	<u>4,791,376</u>	<u>(2,150,024)</u>
<i>Expenditures</i>				
Current:				
Personal services and and benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
General appropriations	-	-	-	-
Transfers in	-	-	6,320,881	6,320,881
Transfers out	(13,494,500)	(13,494,500)	(9,203,672)	4,290,828
Reversion	-	-	-	-
<i>Total other financing sources</i>	<u>(13,494,500)</u>	<u>(13,494,500)</u>	<u>(2,882,791)</u>	<u>10,611,709</u>
<i>Excess (deficiency) of revenues over expenditures and other financing resources</i>	<u>\$ (6,553,100)</u>	<u>\$ (6,553,100)</u>	<u>\$ 1,908,585</u>	<u>\$ 8,461,685</u>

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

STATE OF NEW MEXICO

Exhibit C-3

Office of the State Engineer / Interstate Stream Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
New Mexico Unit Fund (30810)
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues</i>				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Investment income	-	-	1,912,501	1,912,501
Interest on loans	-	-	121,749	121,749
Miscellaneous income	-	-	9,075,000	9,075,000
<i>Total revenues</i>	-	-	11,109,250	11,109,250
<i>Expenditures</i>				
Current:				
Personal services and benefits	-	-	-	-
Contractual services	6,732,524	6,732,524	5,285,588	1,446,936
Other costs	5,850,000	5,850,000	1,072,683	4,777,317
<i>Total expenditures</i>	12,582,524	12,582,524	6,358,271	6,224,253
<i>Other financing sources (uses)</i>				
General appropriations	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(425,300)	(425,300)	(186,203)	239,097
Reversion	-	-	-	-
<i>Total other financing sources</i>	(425,300)	(425,300)	(186,203)	239,097
<i>Excess (deficiency) of revenues over expenditures and other financing resources</i>	<u>\$ (13,007,824)</u>	<u>\$ (13,007,824)</u>	<u>\$ 4,564,776</u>	<u>\$ 17,572,600</u>

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
June 30, 2017

Exhibit D-1

Assets	
Cash and cash equivalents	<u>\$ 298,899</u>
<i>Total assets</i>	<u><u>\$ 298,899</u></u>
Liabilities	
Water rights protest hearing/other deposits	\$ 29,607
Deposits held for others	<u>269,292</u>
<i>Total liabilities</i>	<u><u>\$ 298,899</u></u>

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

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies

The formation of the Office of the State Engineer (the "Agency") 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.

This summary of significant accounting policies of the Agency is presented to assist in the understanding of Agency's financial statements. The financial statements and notes are the representation of Agency's management who is responsible for their integrity and objectivity. The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

During the year ended June 30, 2017, the Agency adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (partial), No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, and No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* (partial). These five Statements are required to be implemented as of June 30, 2017, if applicable.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the Agency, as its pension plan is within the scope of Statement 68.

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the Agency's financial statements directly; however, the effects on the Agency's OPEB plan, administered through the New Mexico Retiree Health Care Authority, will be seen in future periods.

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The Agency's pension plan does not meet the criteria for exclusion.

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the Agency for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the Agency has no component unit.

The Agency is not included in any other governmental “reporting entity” as defined by Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, but would be included in the state-wide Comprehensive Annual Financial Report (CAFR).

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

In the government-wide Statement of Position, the governmental activities (a) are presented on a consolidated basis, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency’s net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenue associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period, subject to the availability criterion. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, subject to the availability criterion. All other revenue items are considered to be measurable and available only when cash is received by the government.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the Agency's citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Agency's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of Agency facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all state appropriations.

The Agency reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The Agency does not currently employ indirect cost allocation systems.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the requirements of GASB Statement No. 34, the Agency is required to present certain of its governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include the following:

The Agency reports the following major governmental funds:

The *General Fund (21400, 86400)* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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Office of the State Engineer / Interstate Stream Commission
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NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The *Irrigation Works Construction Fund (32600)* 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.

The *New Mexico Unit Fund (30810)* 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.

Additionally, the government reports the following agency funds:

The *Irrigation Fees Suspense Fund (84900)* 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.

The *United States Army Corps of Engineers Fund (10530)* is an escrow account used 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.

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NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The *Ute Dam Outlet Works Pipeline Replacement Project Fund* (10520) is an escrow account 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.

The *Rio Grande Floodway Escrow Fund* (11780) 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Equity

Deposits and Investments: The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Agency to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Agency are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The composition of investments and fair values are presented in Notes 3 and 4.

Receivables and Payables: Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental are netted as part of the reconciliation to the government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources in the event they are not received within 60 days of year end.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Equity (continued)

Due From Other State Agencies: Due from other state agencies consist of appropriations to the Agency transferred via other state agencies, investment earnings due to the Agency funds, and draw downs of bond proceeds.

Due From the 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.

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 about 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.

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used and restricted for future debt service payments or capital projects.

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, as a Phase 2 government, the historical cost of infrastructure assets, (retroactive to June 30, 1980) are included as part of the governmental capital assets reported in the government wide statements.

Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
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NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Equity (continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure assets	40
Buildings and structures	5-40
Leasehold improvements	Life of the lease
Furniture and fixtures	10
Machinery and equipment	5-7
Vehicles	5

Accrued Expenses: Accrued expenses are comprised of the payroll expenditures based on amounts earned by the employees through June 30, 2017, along with applicable FICA and Medicare liabilities.

Deferred Outflows of Resources: In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Agency has no deferred outflows at June 30, 2017.

Deferred Inflow of Resources: In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The Agency has one item which arises under the modified accrual basis of accounting that qualifies for reporting in this category. The Agency's settlement due from the federal government presented on the Governmental Funds Balance Sheet is not considered available revenue, resulting in a deferred inflow of \$32,165,843 and \$37,904,015 as of June 30, 2017 and 2016, respectively. See Note 7 for additional information.

Compensated Absences: Agency employees are entitled to certain compensated absences based on their employment classification and length of employment.

Vacation Pay – Employees may accumulate up to 240 hours of vacation and carry leave forward from calendar year to calendar year. Upon termination, employees will be paid up to 240 hours, at their current hourly rate, of accrued vacation pay leave. All vacation pay is accrued when incurred in the government-wide financial statements.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Equity (continued)

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net position.

Sick Leave – Each employee of the Agency accumulates sick leave of 3.69 hours per pay period. Sick leave can be carried forward from calendar year to calendar year. There is no limit to the amount of sick leave that an employee may accumulate. Upon termination, employees are paid for the accumulated time at their current hourly rate up to 600 hours. Amounts over 600 hours are paid out at 50% of their current rate up to 720 hours. Sick leave is paid once per fiscal year in either January or July. Upon retirement, those employees with over 600 hours of sick leave accumulated have the option to convert 400 hours of such leave to cash at one half of their current hourly rate.

Long-term Obligations: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Fund Balance Classification Policies and Procedures: In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, unassigned). Restricted fund balance 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.

For the classification of fund balances, the Agency considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the Agency considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable Fund Balance: At June 30, 2017, the nonspendable fund balance of the Agency is comprised of long-term receivables in the Irrigation Works Construction Fund in the amount of \$884,422, which are not in spendable form.

Restricted and Committed Fund Balance: At June 30, 2017, the restricted fund balance on the governmental funds balance sheet is made up of \$84,505,617. The Agency had no committed funds on the governmental funds balances sheet at June 30, 2017. The details of these fund balance items are located in Note 22.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Equity (continued)

Net Position: Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets: Consists of capital assets, net of net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net position restricted for “special revenue” and “capital projects” are described in Note 22.
- c. Unrestricted Net Position: All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the Agency’s financial statements include the allowance for uncollectible accounts, expected useful lives of capital assets, current portion of accrued compensated absences, and the value of contingent liabilities.

Encumbrance Accounting: Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund and the Special Revenue Funds. Encumbrances not recorded as vouchers payable at year end lapse.

Revenues, Expenditures, and Expenses: Substantially all governmental fund revenues are accrued. No allowance for doubtful accounts for the due from other state agencies or due from federal sources were necessary because the amounts were due from funds held by another state agency and are considered fully collectible by management.

Expenditures are recognized when the related fund liability is incurred.

STATE OF NEW MEXICO
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NOTE 2. Stewardship, Compliance, and Accountability

Budgetary Information

The Agency uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

1. No later than September 1, the Agency prepares a budget appropriation request by category to be presented to the next Legislature.
2. The appropriation request is submitted to the New Mexico Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request, which then becomes the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.
7. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
8. The Agency submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1.
9. All subsequent budget adjustments must be approved by the Agency and the Director of the DFA Budget Division. The budget for the current year was properly amended.
10. Legal budget control for expenditures and encumbrances is at the appropriation unit level.
11. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Funds.
12. The budget is adopted on a modified accrual basis of accounting that is consistent with accounting principles generally accepted in the United States of America. This change was implemented with the Laws of 2004, Chapter 114, Section 3 Paragraph N and Paragraph O. It is effective for fiscal years beginning July 1, 2004. However, there is a statutory exception per General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA. 1978. Those accounts payable must be paid out of the next year's budget.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 2. Stewardship, Compliance, and Accountability (continued)

13. Each year the Legislature approves multiple 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 presentations in these financial statements are consistent with the budgeting methodology.

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual and Statements of Revenues, Expenses and Changes in Net Position – Budget and Actual presents comparisons of the legally adopted budget with actual data on the GAAP basis.

NOTE 3. State General Fund Investment Pool

The Agency does not have a separate bank account. For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Public Schools Facilities Authority, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

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Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 3. State General Fund Investment Pool (continued)

In FY 2012, management of DFA recorded a loss contingency of \$101.7 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool. That estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

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

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

Detail of pledged collateral specific to this agency is unavailable because the bank comingles pledged collateral for all state funds it holds. However, the State Treasurer's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

The Agency does not have a separate bank account. The following is a summary of the Agency's investment account of the State General Fund Investment Pool held by the New Mexico State Treasurer as reported by the New Mexico Department of Finance and Administration (DFA):

<u>Fund</u>	<u>Type of Account</u>	<u>SHARE Fund No.</u>	<u>Reconciled Balance</u>
General Fund	Investment	21400	\$ 1,961,712
General Fund	Investment	86400	4,284,920
Irrigation Works Construction Fund	Investment	32600	1,234,971
Improvement of the Rio Grande Fund	Investment	32800	7,183,115
Capital Projects Fund	Investment	26700	5,516,850
Ute Dam Operating Fund	Investment	32400	21,856
Ute Dam Construction Fund	Investment	32500	658,746
Pecos River Basin Land Management Fund	Investment	68600	578,745
STB Capital Outlay Fund	Investment	89200	6,774,162
Arizona Settlement Fund	Investment	30810	5,181,570
Indian Water Rights Settlement Fund	Investment	20170	546,371
General Fund Capital Outlay	Investment	93100	<u>1,000,000</u>
Total Investment in State Treasurer's General Fund Investment Pool per ExhibitA-1			34,943,018
Irrigation Suspense Fund	Fiduciary	84900	29,607
Petty cash		21400	<u>125</u>
Total share of State General Fund Investment Pool			<u><u>\$ 34,972,750</u></u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As detailed in Supporting Schedule I, the Agency had deposits in Wells Fargo Bank of \$269,292. These deposits have FDIC coverage of \$250,000, leaving the Agency with uninsured funds of \$19,292.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 3. State General Fund Investment Pool (continued)

Detail of pledged collateral specific to this agency is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the STO's collateral bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

NOTE 4. Investments

The Agency's investments at June 30, 2017 include the following:

	32600 Irrigation Works Construction Fund		32800 Improvement of the Rio Grande Fund		30810 NM Unit Fund		Total
	Units	Market Value	Units	Market Value	Units	Market Value	
Large Cap Active Pool	1,728	\$ 8,459,341	239	\$ 1,169,711	-	\$ -	\$ 9,629,052
Large Cap Index Pool	-	-	-	-	2,855	9,848,692	9,848,692
Mid/Small Cap Pool	-	-	-	-	879	3,136,100	3,136,100
Core Bond Pool	1,901	6,104,919	269	863,082	5,294	16,998,397	23,966,398
Non US Developed Pool	-	-	-	-	3,906	6,883,446	6,883,446
Non US Emerging Markets Active Pool	-	-	-	-	1,853	2,045,866	2,045,866
Total investments		<u>\$ 14,564,260</u>		<u>\$ 2,032,793</u>		<u>\$ 38,912,501</u>	<u>\$ 55,509,554</u>

Investment earnings for the year ended June 30, 2017 were as follows:

	32600 Irrigation Works Construction Fund	23800 Improvement of the Rio Grande Fund	30810 NM Unit Fund
Interest and dividends on investments and cash deposits	\$ 328,058	\$ 45,992	\$ 426,460
Realized gain (loss) on sale of investments	614,586	85,010	4,326,720
Increase (decrease) in fair value of investments	870,230	120,369	(2,797,210)
Management fee expense	(44,248)	(6,156)	(43,468)
Interest on investments at STO	18,383	32,278	121,749
Interagency transfer from LGPF	<u>6,320,881</u>	<u>1,414,189</u>	<u>-</u>
Investment earnings	<u>\$ 8,107,890</u>	<u>\$ 1,691,682</u>	<u>\$ 2,034,251</u>

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Notes to Financial Statements
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NOTE 4. Investments (continued)

The investment 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 investment pools indicated above 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.

Interest Rate Risk – Investments. Interest rate Risk is the risk that changes in interest rates could adversely affect the fair value of an investment.

Concentration of Credit Risk – Investments. For an investment, concentration of credit risk is when any one issuer is 5% or more of the investment portfolio of the Agency.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. See above for discussion of valuation methodologies used to measure fair value of investments.

The valuation methodologies are described in the New Mexico State Investment Council's audited financial statements. The methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTE 4. Investments (continued)

The Agency maintained a balance of \$55,509,554 in investments at June 30, 2017 which required fair value disclosure. The following table sets forth by level within the fair value hierarchy of the Agency's assets at fair value as of June 30, 2017:

	Fair Value Level			Total
	Level 1	Level 2	Level 3	
Equity Securities	\$ 21,694,463	\$ 9,484,692	\$ -	\$ 31,179,155
Debt Securities	-	23,966,397	-	23,966,397
	<u>\$ 21,694,463</u>	<u>\$ 33,815,090</u>	<u>\$ -</u>	<u>\$ 55,509,554</u>

NOTE 5. Accounts Receivable

Receivables as of June 30, 2017 for the Agency were as follows:

	21400/86400	32600	30810	Total
	General Fund	Irrigation Works Construction Fund	New Mexico Unit Fund	
Contract receivables	\$ 396,409	\$ 279,650	\$ 35,000	\$ 711,059
Accrued interest on settlement	-	-	962,771	962,771
Accrued loan interest	-	29,925	-	29,925
Allowance for doubtful accounts	-	(20,266)	-	(20,266)
Interest receivable, net of allowance	-	9,659	962,771	972,430
Totals	<u>\$ 396,409</u>	<u>\$ 289,309</u>	<u>\$ 997,771</u>	<u>\$ 1,683,489</u>

Management considers contract receivables and accrued interest on settlement to be fully collectible as of June 30, 2017.

NOTE 6. Loans Receivable

As of June 30, 2017, the Agency had loans receivable in the amount of \$912,167 outstanding from various entities. Of this balance, management expects \$27,745 to be uncollectible as of June 30, 2017.

NOTE 7. Settlement Due from Federal Government

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, 2017, and the Agency recorded a receivable of \$31,203,072 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.

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NOTE 7. Settlement Due from Federal Government (continued)

The Agency also recorded accrued interest receivable related to the settlement of \$962,771 as of June 30, 2017. The actual amounts received may require adjustment relative to the receivable recorded, due to indexing.

The amounts expected by year, as of June 30, 2017, assuming imputed interest of approximately 6.17%, are as follows:

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Receivable Balance</u>
				\$ 31,203,072
2018	\$ 9,040,000	\$ 7,114,458	\$ 1,925,542	24,088,614
2019	9,040,000	7,553,492	1,486,508	16,535,122
2020	9,040,000	8,019,618	1,020,382	8,515,504
2021	9,040,000	8,515,504	524,496	-
	<u>\$ 36,160,000</u>	<u>\$ 31,203,072</u>	<u>\$ 4,956,928</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.

NOTE 8. Due from/Due to Other State Agencies

The Agency had the following amounts due from other agencies as of June 30, 2017:

<u>Department Fund</u>	<u>Agency</u>	<u>Agency Number</u>	<u>Fund Number</u>	<u>Amount</u>	<u>Purpose</u>
32600	State Investment Council	33700	60100	\$ 521,068	LGPF Distribution
32800	State Investment Council	33700	60100	116,577	LGPF Distribution
89200	Severance Tax Bond	34103	10920	7,856	Capital Appropriations Draw
89200	Severance Tax Bond	34103	20610	385,471	Capital Appropriations Draw
89200	Severance Tax Bond	34103	50230	231,763	Capital Appropriations Draw
			Total	<u>\$ 1,262,735</u>	

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NOTE 8. Due from/Due to Other State Agencies (continued)

The Agency had the following amounts due to other agencies as of June 30, 2017:

<u>Department Fund</u>	<u>Agency</u>	<u>Agency Number</u>	<u>Fund Number</u>	<u>Amount</u>	<u>Purpose</u>
89200	Administrative Office of the Courts	21800	51200	\$ 367,941	Water Projects Fund Distribution
21400	Administrative Office of the Courts	21800	51200	80,000	Water Projects Fund Distribution
21400	Department of Health	66500	06104	11,624	Los Lunas Silvery Minow Refugium
21400	Office of the Attorney General	54400	30500	89,400	Reversion
21400	Department of Game & Fish	51600	19800	45,760	Reversion
21400	Department of Game & Fish	51600	19800	46,795	Reversion
			Total	<u>\$ 641,520</u>	

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

NOTE 9. Due to State General Fund

The Agency had the following amounts due to the State General Fund as of June 30, 2017:

Due for reversions	\$ 324,004
General Fund capital appropriation reversion	1,000,000
Amounts collectible on behalf of the State of New Mexico	<u>264,424</u>
	<u>\$ 1,588,428</u>

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NOTE 10. Interagency Transfers

The Agency had the following interagency transfers in for the year ended June 30, 2017:

Department Fund	Agency	Agency Number	Fund Number	Amount	Purpose
21400	Office of the Attorney General	30500	17000	\$ 1,500,000	Continuation of water litigation
21400	Department of Game & Fish	51600	19800	100,000	Payment for operations of Ute Dam and Eagle Nest Dam
21400	Department of Game & Fish	51600	19800	82,300	Payment for operations of Ute Dam and Eagle Nest Dam
89200	STB	34103	10920	101,490	STB Proceeds
89200	STB	34103	11720	220,024	STB Proceeds
89200	STB	34103	11760	2,517	STB Proceeds
89200	STB	34103	11910	109,679	STB Proceeds
89200	STB	34103	20610	2,127,827	STB Proceeds
89200	STB	34103	20620	114,270	STB Proceeds
89200	STB	34103	35110	16,000	STB Proceeds
89200	STB	34103	40220	21,686	STB Proceeds
89200	STB	34103	50230	439,998	STB Proceeds
89200	STB	34103	50260	73,000	STB Proceeds
89200	STB	34103	50350	1,839,703	STB Proceeds
32600	State Investment Council	33700	60100	6,320,881	LGPF distributions
32800	State Investment Council	33700	60100	1,414,189	LGPF distributions
Total governmental funds				<u>\$ 14,483,564</u>	

The Agency had the following interagency transfers out for the year ended June 30, 2017:

Department Fund	Agency	Agency Number	Fund Number	Amount	Purpose
21400	Administrative Office of the Courts	21800	51200	\$ 80,000	Distribution of water project fund monies
89200	Administrative Office of the Courts	21800	51200	367,941	Distribution of water project fund monies
Total governmental funds				<u>\$ 447,941</u>	

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NOTE 11. Intra-agency Transfers and Interfund Receivables

Net operating transfers, made to supplement other funding sources, were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Capital Projects Fund (26700)	General Fund (21400/86400)	\$ 1,856,940
New Mexico Unit Fund (30810)	General Fund (21400/86400)	186,203
Irrigation Works Construction Fund (32600)	General Fund (21400/86400)	9,203,672
Improvement of the Rio Grande Fund (32800)	General Fund (21400/86400)	<u>698,169</u>
	Total	<u>\$ 11,944,984</u>

The Agency records temporary interfund receivables and payables to enable the funds to operate until monies are received. The composition of interfund balances during the year ended June 30, 2017 were as follows:

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
Irrigation Works Construction Fund (32600)	General fund (21400/86400)	\$ 2,066,325
Improvement of the Rio Grande Fund (32800)	General fund (21400/86400)	320,259
New Mexico Unit Fund (30810)	General fund (21400/86400)	21,520
General fund (21400/86400)	Irrigation Works Construction Fund (32600)	<u>300</u>
	Total	<u>\$ 2,408,404</u>

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NOTE 12. Capital Assets

The capital assets activity for the year ended June 30, 2017 is as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets not being depreciated				
Water rights & land	\$ 74,893,773	\$ -	\$ -	\$ 74,893,773
Construction works-in-progress	42,798	1,932,720	(1,215,590)	759,928
Total capital assets not being depreciated	<u>74,936,571</u>	<u>1,932,720</u>	<u>(1,215,590)</u>	<u>75,653,701</u>
Capital assets being depreciated				
Infrastructure	41,668,978	1,215,590	-	42,884,568
Buildings and structures	23,099	-	-	23,099
Furniture and fixtures	863,175	-	-	863,175
Machinery and equipment	3,838,624	32,719	(27,104)	3,844,239
Leasehold improvement	43,184	-	-	43,184
Vehicles	36,463	-	-	36,463
Total capital assets being depreciated	<u>46,473,523</u>	<u>1,248,309</u>	<u>(27,104)</u>	<u>47,694,728</u>
Total capital assets	<u>121,410,094</u>	<u>3,181,029</u>	<u>(1,242,694)</u>	<u>123,348,429</u>
Accumulated depreciation				
Infrastructure	(15,045,552)	(1,196,558)	-	(16,242,110)
Buildings and structures	(20,685)	(99)	-	(20,784)
Furniture and fixtures	(607,094)	(60,613)	-	(667,707)
Machinery and equipment	(3,488,579)	(125,418)	13,552	(3,600,445)
Leasehold equipment	(43,184)	-	-	(43,184)
Vehicles	(36,463)	-	-	(36,463)
Total accumulated depreciation	<u>(19,241,557)</u>	<u>(1,382,688)</u>	<u>13,552</u>	<u>(20,610,693)</u>
Total capital assets, net	<u>\$ 102,168,537</u>	<u>\$ 1,798,341</u>	<u>\$ (1,229,142)</u>	<u>\$ 102,737,736</u>

The Governmental Statement of Revenues, Expenditures, and Changes in Fund Balance reports capital outlay expenditures of \$1,165,982. Capital outlay reconciles to capital asset additions as follows:

Capital outlay per statement B-2	\$ 1,165,982
Capital outlay included in contractual costs of Exhibit B-2	799,457
Construction works in-progress transfers	1,215,590
Total additions	<u>\$ 3,181,029</u>

The agency disposed of assets with a cost of \$27,104 with related accumulated depreciation of \$13,552 during the year ended June 30, 2017. This resulted in a loss on disposal of \$13,552 included in other costs at Exhibit A-2.

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NOTE 13. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>	<u>Due within one Year</u>
Compensated absences	\$ 1,252,150	\$ 827,650	\$ 890,353	\$ 1,189,447	\$ 1,189,447

Compensated absences payable – The liability at June 30, 2017 has been recorded in the basic financial statements and represents the Agency’s commitment to fund accrued vacation, sick leave and personal time off costs from future operations. The compensated absence liability of the governmental fund is expected to be liquidated by the General Fund.

Indian Water Rights Settlement

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 agreements and related documents can be found at: www.ose.state.nm.us/legal_ose_proposed_settlements.html.

Navajo Nation Settlement

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 has been 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.

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.

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NOTE 13. Long-Term Liabilities (continued)

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. The State entered into a Funding Agreement on July 29, 2014 required by the Cost Sharing Agreement that sets out a schedule for the State of New Mexico's cost share contributions through FY2024.

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, 2017. The State of New Mexico will not own the infrastructure once completed; the infrastructure and projects will be owned by tribal and local governments.

The Agency estimates that the State of New Mexico will receive a credit towards its cost share for the Navajo Nation Settlement of about \$28.8 million, and has received preliminary approval for the remaining amount of its cost share contribution. A portion of the State's share includes \$10 million on non-mandatory expenditures for ditch rehabilitation under the Navajo Settlement. The State has met its cost share obligations under the Taos Pueblo settlement.

As of the fiscal year ended June 30, 2017, 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, 2017.

The Agency has recorded, as a special item, the estimated settlement expense in the government-wide financial statements, of \$60.8 million, as of June 30, 2017. 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, 2017 is as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Indian Water Rights Settlement	\$ 62,099,835	\$ -	\$(1,250,000)	<u>\$ 60,849,835</u>

Actual amounts recorded may require future adjustments that could increase or decrease the liability due to the credit provisions in the settlements. Also, due to the fact that the timing of the payments is subject to obtaining appropriations, the amount due for these settlements and any related cost indexing is based on best estimates.

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NOTE 14. Other Required Individual Fund Disclosures

- The Agency did not have deficit fund balance at year end June 30, 2017.
- The Agency did not exceed approved budget at year end June 30, 2017.
- The Agency did not have any funds in which designated cash appropriations were in excess of available budget.

NOTE 15. Pension Plan – Public Employees Retirement Association

General Information about the Pension Plan: Compliant with the requirements of Government Accounting Standards Board Statement No. 68 Accounting and Financial Reporting for Pensions, the State of New Mexico implemented the standard for 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 including schedules of required supplementary information and related notes 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. The net pension liability is a long-term liability that is not directly related to or expected to be paid from the Agency's funds and therefore not reported in the Agency's Statement of Net Position. Information concerning the net pension liability, pension expense, and pension-related deferred inflow and outflow 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 the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501.

NOTE 16. 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 postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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NOTE 16. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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

The employer, employee and retiree contributions are required to be remitted to the RHCA 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, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary.

In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Agency's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$325,769, \$340,165, and \$329,594, respectively, which equal the required contributions for each year.

NOTE 17. 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.

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NOTE 17. Deferred Compensation Plan (continued)

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.

NOTE 18. Land Grant Permanent Fund

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

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

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

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

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

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NOTE 19. Contingent Liabilities

The Agency is party to various claims and lawsuits arising in the normal course of business. While the outcome of the proceedings cannot be predicted, the Agency believes that any potential liability would be covered through insurance, supplemental appropriations, or would be immaterial to the financial statements.

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 as the plaintiff is seeking reimbursement of legal costs. Because the liability has a high probability of being awarded and is estimable, a long-term contingent liability for \$77,500 was accrued in the Government-Wide Statement of Net Position.

NOTE 20. 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 the specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

NOTE 21. Commitments

Operating Leases

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 \$862,071 for the year ended June 30, 2017.

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 \$75,868 for the year ended June 30, 2017.

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, 2017.

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 \$83,362 for the year ended June 30, 2017. Future lease payments will fluctuate and are dependent on the number of water rights leased and amounts adjusted for inflation.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 21. Commitments (continued)

The following is a schedule by years of future minimum lease rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2017:

<u>Year Ending June 30,</u>	<u>Buildings & Structures</u>	<u>Machinery Equipment</u>	<u>Rio Grande Water Rights</u>
2018	\$ 878,242	\$ 57,988	\$ 83,845
2019	840,638	6,066	84,767
2020	520,486	-	85,700
2021	285,571	-	86,643
2022	13,787	-	-
	<u>\$ 2,538,724</u>	<u>\$ 64,054</u>	<u>\$ 340,955</u>

The Agency had the various construction commitments as of June 30, 2017 related to the improvement of the State's water related infrastructure and meters. These projects are funded by the State Appropriations listed in Supplemental Schedule IV. Due to the nature of State Appropriations and the associated contract terms, these projects are not considered true obligations to the Agency as the related contracts can be terminated in the event the project appropriation was de-authorized.

Risk Management

The Agency obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. The coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Agency are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2015 through June 30, 2016. There have been no settlements in excess of insurance coverage as of June 30, 2017.

NOTE 22. Subsequent Events

The date to which events occurring after June 30, 2017, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is October 31, 2017, which is the date on which the financial statements were available to be issued. No events were noted for disclosure.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 23. Fund Balance and Net Position

Fund balance on the modified accrual basis was classified as follows at June 30, 2017:

	<u>Restricted</u>	<u>Committed</u>	<u>Nonspendable</u>
General Fund (21400/86400)			
Emergency Drought Water Agreement	\$ 4,337,034	\$ -	\$ -
Adjudications	184,177	-	-
Conservation Water Agreement	1	-	-
Strategic Water Reserve	534,701	-	-
Private grant	15,000	-	-
	<u>5,070,913</u>	<u>-</u>	<u>-</u>
Irrigation Works Construction Fund (32600)			
Water Conservation	14,533,583	-	-
Long-term receivable	<u>-</u>	<u>-</u>	<u>884,422</u>
New Mexico Unit Fund (30810)			
Public works - Arizona Water Settlement	<u>43,738,850</u>	<u>-</u>	<u>-</u>
Nonmajor Funds			
Water Conservation (32800)	9,012,226	-	-
Public Works - Indian Water Rights Settlement (20170/89200)	5,076,257	-	-
Adjudications (89200)	1,471,762	-	-
Land Management (68600)	578,745	-	-
Dam Construction and operations (32400/25000)	680,602	-	-
Capital outlay projects (26700)	<u>4,342,679</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 84,505,617</u>	<u>\$ -</u>	<u>\$ 884,422</u>

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 23. Fund Balance and Net Position (continued)

The government-wide statement of net position reports \$81,047,359 of restricted net position for governmental activities, all of which is restricted by enabling legislation. Restrictions as of June 30, 2017 were:

Ute Dam operating/construction	\$ 680,602
Loans	884,422
Investigation and construction of water conservation projects	14,533,583
Improvement and increase of surface flow of the Rio Grande River	9,012,226
Water projects in the Gila region	43,738,850
Indian water rights settlement	5,076,257
Pecos River Basin land management	578,745
Emergency Drought Water Agreement	4,337,034
Adjudications	1,655,939
Strategic Water Reserve	534,701
Private grant	<u>15,000</u>
 Total	 <u><u>\$ 81,047,359</u></u>

NOTE 24. Subsequent Pronouncements

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Agency does not expect this pronouncement to have a material effect on the financial statements.

In December 2015, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plan* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

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

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

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Notes to Financial Statements
June 30, 2017

NOTE 24. Subsequent Pronouncements (continued)

In March 2017, GASB Statement No. 85, *Omnibus 2017* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Agency is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to in-substance defeasance of debt using only existing resources. The Agency does not expect the pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87 *Leases* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

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SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Nonmajor Governmental Fund Descriptions
June 30, 2017

Special Revenue Funds

Ute Dam Operation Fund – (32400) – This fund accounts for operations and maintenance of Ute Dam and reservoir. The fund was created by 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 expenditures.

Ute Dam Construction Fund – (32500) – The fund accounts for revenues generated from investments 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 – (32800) – 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 – (68600) – 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 – (20170) – 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 Projects Funds

Capital Projects Fund – (26700) – 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. The fund was created by the Laws of 1996, Chapter 11.

Severance Tax Bond (STB) Capital Outlay Fund – (89200) - 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.

General Fund (GF) Capital Outlay Fund – (93100) - 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.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue			
	32400 Ute Dam Operating Fund	32500 Ute Dam Construction Fund	32800 Improvement of the Rio Grande Fund	68600 Pecos River Basin Land Management Fund
<i>Assets</i>				
Petty cash	\$ -	\$ -	\$ -	\$ -
Investment in State Treasurer's General Fund Investment Pool	21,856	658,746	7,183,115	578,745
Investments	-	-	2,032,793	-
Accounts receivable, net of allowance	-	-	-	-
Due from other funds	-	-	-	-
Due from other state agencies	-	-	116,577	-
Due from federal sources	-	-	-	-
<i>Total assets</i>	\$ 21,856	\$ 658,746	\$ 9,332,485	\$ 578,745
<i>Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Due to other funds	-	-	320,259	-
Due to other state agencies	-	-	-	-
Due to State General Fund	-	-	-	-
<i>Total liabilities</i>	-	-	320,259	-
<i>Fund balances</i>				
Nonspendable:	-	-	-	-
Spendable:				
Restricted	21,856	658,746	9,012,226	578,745
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
<i>Total fund balances</i>	21,856	658,746	9,012,226	578,745
<i>Total liabilities and fund balances</i>	\$ 21,856	\$ 658,746	\$ 9,332,485	\$ 578,745

See independent auditors' report.

<u>Special Revenue</u>	<u>Capital Projects</u>			
20170 Indian Water Rights Settlement Fund	26700 Capital Projects Fund	89200 STB Capital Outlay Fund	93100 GF Capital Outlay Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -
546,371	5,516,850	6,774,162	1,000,000	22,279,845
-	-	-	-	2,032,793
-	-	-	-	-
-	-	625,090	-	741,667
-	-	-	-	-
<u>\$ 546,371</u>	<u>\$ 5,516,850</u>	<u>\$ 7,399,252</u>	<u>\$ 1,000,000</u>	<u>\$ 25,054,305</u>
\$ -	\$ 1,174,171	\$ 1,029,663	\$ -	\$ 2,203,834
-	-	-	-	-
-	-	-	-	320,259
-	-	367,941	-	367,941
-	-	-	1,000,000	1,000,000
-	1,174,171	1,397,604	1,000,000	3,892,034
-	-	-	-	-
546,371	4,342,679	6,001,648	-	21,162,271
-	-	-	-	-
-	-	-	-	-
<u>546,371</u>	<u>4,342,679</u>	<u>6,001,648</u>	<u>-</u>	<u>21,162,271</u>
<u>\$ 546,371</u>	<u>\$ 5,516,850</u>	<u>\$ 7,399,252</u>	<u>\$ 1,000,000</u>	<u>\$ 25,054,305</u>

See independent auditors' report.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue			
	32400 Ute Dam Operating Fund	32500 Ute Dam Construction Fund	32800 Improvement of the Rio Grande Fund	68600 Pecos River Basin Land Management Fund
<i>Revenues</i>				
Federal sources	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	277,493	-
Interest on loans	-	-	-	-
Miscellaneous income	-	54,009	1,443,926	-
<i>Total revenues</i>	<u>-</u>	<u>54,009</u>	<u>1,721,419</u>	<u>-</u>
<i>Expenditures</i>				
Agriculture, Energy, and Natural Resources				
Current:				
Personal services and benefits	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>54,009</u>	<u>1,721,419</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
State General Fund appropriations	-	-	-	-
Transfers in (out):				
Interfund transfers in	-	-	-	-
Interagency transfers in	-	-	1,414,189	-
Interfund transfers out	-	-	(698,169)	-
Interagency transfers out	-	-	-	-
Reversions FY17	-	-	-	-
Indian Water Rights Settlement	-	-	-	-
Arizona Water Settlement	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>716,020</u>	<u>-</u>
<i>Net change in fund balances</i>	-	54,009	2,437,439	-
<i>Fund balances - beginning</i>	<u>21,856</u>	<u>604,737</u>	<u>6,574,787</u>	<u>578,745</u>
<i>Fund balances - end of year</i>	<u>\$ 21,856</u>	<u>\$ 658,746</u>	<u>\$ 9,012,226</u>	<u>\$ 578,745</u>

See independent auditors' report.

<u>Special Revenue</u>	<u>Capital Projects</u>			
20170 Indian Water Rights Settlement Fund	26700 Capital Projects Fund	89200 STB Capital Outlay Fund	93100 GF Capital Outlay Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	277,493
-	-	-	-	-
-	-	-	-	1,497,935
-	-	-	-	1,775,428
-	-	-	-	-
-	85,536	53,433	-	138,969
93,989	1,757,476	2,341,916	-	4,193,381
-	13,248	831,143	-	844,391
93,989	1,856,260	3,226,492	-	5,176,741
(93,989)	(1,856,260)	(3,226,492)	-	(3,401,313)
-	-	-	-	-
-	-	-	-	-
-	-	5,066,194	-	6,480,383
-	(1,856,940)	-	-	(2,555,109)
-	-	(367,941)	-	(367,941)
-	-	-	(1,000,000)	(1,000,000)
-	-	-	-	-
-	-	-	-	-
-	(1,856,940)	4,698,253	(1,000,000)	2,557,333
(93,989)	(3,713,200)	1,471,761	(1,000,000)	(843,980)
640,360	8,055,879	4,529,887	1,000,000	22,006,251
\$ 546,371	\$ 4,342,679	\$ 6,001,648	\$ -	\$ 21,162,271

See independent auditors' report.

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Schedule of Deposit and Investment Accounts
June 30, 2017

Schedule I

<u>Bank Account Type/Name</u>	<u>State of New Mexico</u>	<u>Wells Fargo Bank</u>	<u>Totals</u>
Investment in State Treasurer's General Fund Investment Pool	\$ 34,943,143	\$ -	\$ 34,943,143
Investments with the State Investment Council	55,509,554	-	55,509,554
Ute Dam Escrow	-	16,521	16,521
COE Escrow	-	252,660	252,660
RG Floodway Escrow	-	111	111
Irrigation Suspense Fund	29,607	-	29,607
Total on deposit and investment	90,482,304	269,292	90,751,596
Reconciling items	-	-	-
<i>Reconciled balance</i> <i>June 30, 2017</i>	<u>\$ 90,482,304</u>	<u>\$ 269,292</u>	<u>90,751,596</u>
Less: investments per Exhibit A-1			55,509,554
Less: Agency funds cash and cash equivalents per Exhibit D-1			298,899
<i>Total investment in State Treasurer's General Fund Investment Pool per Exhibit A-1</i>			<u>\$ 34,943,143</u>

See independent auditors' report.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

Schedule II

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Assets				
Ute Dam Escrow (10520)	\$ 16,516	\$ 5	\$ -	\$ 16,521
COE Escrow (10530)	252,584	76	-	252,660
RG Floodway Escrow (11780)	111	-	-	111
Irrigation Suspense Fund (84900)	29,607	-	-	29,607
<i>Total assets</i>	<u>\$ 298,818</u>	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 298,899</u>
Liabilities				
Water rights protest hearing/ other deposits	\$ 29,607	\$ -	\$ -	\$ 29,607
Deposits held for others	269,211	81	-	269,292
<i>Total liabilities</i>	<u>\$ 298,818</u>	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 298,899</u>

See independent auditors' report.

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Schedule of Joint Powers Agreements
For the Year Ended June 30, 2017

	Agreements	Participants	Responsible Party	Description
1	Investments of certain ISC monies	Interstate Stream Commission/ NM State Investment Council	Interstate Stream Commission	Invests certain moneys belonging to the ISC
2	Water litigation with the State of Texas	Interstate Stream Commission/ Office of the Attorney General of New Mexico	Interstate Stream Commission	Prepare for anticipated water litigation with the State of Texas
3	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
4	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

See independent auditors' report.

Beginning and Ending Dates	Total estimated project amount and amount applicable to Agency	Amount contributed current fiscal year	Audit Responsibility	Fiscal agent and responsible reporting entity
3/3/1994 thru Indefinite	N/A	\$ 37,000,000.00	Both Entities	Both Entities
3/11/2002 thru completion	As Budgeted per each Department	As Budgeted per each Department	Both Entities	Both Entities
10/25/2005 thru 6/30/2027	As Budgeted per each Department	As Budgeted per each Department	All Entities	Both Entities
11/16/2004 thru Indefinite	\$11,200 (amount to be provided by San Miguel for water master expenses)	N/A	ISC	Both Entities

See independent auditors' report.

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, 2017

Description	SHARE Identifier #	Original Appropriation
Fund 26700		
Special, Deficiency, Specific and Capital Outlay Appropriations		
Laws of 2014, Chapter 66, Section 37, Subsection 1	A142155	\$ 1,000,000
Laws of 2014, Chapter 66, Section 37, Subsection 2	A142156	2,000,000
Laws of 2014, Chapter 66, Section 37, Subsection 3	A142157	142,900
Laws of 2017, Chapter 135, Section 6, item 9	ZB0609	1,857,100
Laws of 2014, Chapter 66, Section 38	A142158	4,000,000
Total Capital Outlay Appropriations - Fund 267		\$ 9,000,000
Total unexpended balance		
FUND 89200 STB Capital Outlay		
Laws of 2013, Chapter 202, Section 48	A093790	\$ 293,093
Laws of 2011, Chapter 5, Section 16	A111303	15,000,000
Laws of 2012, Chapter 64, Section 15, Subsection 10	A121400	100,000
Laws of 2012, Chapter 226, Section 21, Subsection 1	A131420	125,000
Laws of 2012, Chapter 226, Section 21, Subsection 2	A131421	2,700,000
Laws of 2012, Chapter 226, Section 21, Subsection 3	A131422	-
Laws of 2012, Chapter 226, Section 21, Subsection 4	A131423	100,000
Laws of 2012, Chapter 226, Section 21, Subsection 5	A131424	1,800,000
Laws of 2012, Chapter 226, Section 21, Subsection 6	A131425	255,000
Laws of 2012, Chapter 226, Section 21, Subsection 7	A131426	265,000
Laws of 2012, Chapter 226, Section 21, Subsection 8	A131427	82,000
Laws of 2012, Chapter 226, Section 21, Subsection 9	A131428	-
Laws of 2012, Chapter 226, Section 21, Subsection 10	A131429	-
Laws of 2012, Chapter 226, Section 21, Subsection 11	A131430	25,000
Laws of 2012, Chapter 226, Section 21, Subsection 12	A131431	-
Laws of 2012, Chapter 226, Section 21, Subsection 13	A131432	10,000,000
Laws of 2012, Chapter 226, Section 29, Subsection 2	A131570	-
Laws of 2012, Chapter 226, Section 29, Subsection 3	A131571	60,000
Laws of 2012, Chapter 226, Section 29, Subsection 4	A131572	30,000
Laws of 2012, Chapter 226, Section 29, Subsection 6	A131573	-
Laws of 2012, Chapter 226, Section 29, Subsection 7	A131574	45,000
Laws of 2012, Chapter 226, Section 29, Subsection 8	A131575	41,850
Laws of 2012, Chapter 226, Section 29, Subsection 9	A131576	50,000
Laws of 2012, Chapter 226, Section 29, Subsection 10	A131577	-
Laws of 2012, Chapter 226, Section 29, Subsection 11	A131578	20,000
Laws of 2012, Chapter 226, Section 29, Subsection 12	A131579	80,000
Laws of 2012, Chapter 226, Section 29, Subsection 13	A131580	72,000
Laws of 2012, Chapter 226, Section 29, Subsection 14	A131581	12,000
Laws of 2012, Chapter 226, Section 29, Subsection 15	A131582	30,400
Laws of 2012, Chapter 226, Section 29, Subsection 16	A131583	-
Laws of 2012, Chapter 226, Section 29, Subsection 17	A131584	-
Laws of 2012, Chapter 226, Section 29, Subsection 18	A131585	25,000
Laws of 2015, Chapter 147, Section 53	A131586	6,000
Laws of 2012, Chapter 226, Section 29, Subsection 20	A131587	25,000

See independent auditors' report.

Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumbered Balances
03/11/2014-06/30/2018	\$ 295,643	\$ 251,712	\$ 452,645
03/11/2014-06/30/2018	1,323,263	250,813	425,924
03/11/2014-06/30/2018	34,148	1,741	107,011
04/07/2017-06/30/2017	1,856,940	-	160
03/11/2014-06/30/2018	1,147,326	2,317,912	534,762
	<u>\$ 4,657,320</u>	<u>\$ 2,822,178</u>	<u>\$ 1,520,502</u>
			<u>\$ 4,342,680</u>
07/01/2015-06/30/2018	\$ 229,393	\$ -	\$ 63,700
non-reverting	10,470,114	-	4,529,886
06/01/2012-06/30/2018	-	-	100,000
06/01/2013-06/30/2017	125,000	-	-
06/01/2013-06/30/2017	2,700,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	100,000	-	-
06/01/2013-06/30/2017	1,800,000	-	-
06/01/2013-06/30/2017	255,000	-	-
06/01/2013-06/30/2017	265,000	-	-
06/01/2013-06/30/2017	82,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	25,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	10,000,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	-	-	60,000
06/01/2013-06/30/2017	30,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	45,000	-	-
06/01/2013-06/30/2017	41,002	-	848
06/01/2013-06/30/2017	50,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	20,000	-	-
06/01/2013-06/30/2017	75,264	-	4,736
06/01/2013-06/30/2017	71,841	-	159
06/01/2013-06/30/2017	11,938	-	62
06/01/2013-06/30/2017	30,250	-	150
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	25,000	-	-
06/01/2013-06/30/2017	6,000	-	-
06/01/2013-06/30/2017	-	-	25,000

See independent auditors' report.

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, 2017

Description	SHARE Identifier #	Original Appropriation
Laws of 2012, Chapter 226, Section 29, Subsection 21	A131588	\$ 40,000
Laws of 2012, Chapter 226, Section 29, Subsection 22	A131589	25,000
Laws of 2012, Chapter 226, Section 29, Subsection 23	A131590	30,000
Laws of 2012, Chapter 226, Section 29, Subsection 24	A131591	20,000
Laws of 2012, Chapter 226, Section 29, Subsection 25	A131592	-
Laws of 2012, Chapter 226, Section 29, Subsection 26	A131593	40,000
Laws of 2012, Chapter 226, Section 29, Subsection 27	A131594	50,000
Laws of 2012, Chapter 226, Section 29, Subsection 28	A131595	4,800
Laws of 2015, Chapter 147, Section 53	A131596	16,000
Laws of 2015, Chapter 147, Section 54	A131597	10,000
Laws of 2012, Chapter 226, Section 29, Subsection 31	A131598	82,667
Laws of 2012, Chapter 226, Section 29, Subsection 32	A131599	-
Laws of 2012, Chapter 226, Section 29, Subsection 33	A131600	94,000
Laws of 2012, Chapter 226, Section 29, Subsection 34	A131601	25,000
Laws of 2012, Chapter 226, Section 29, Subsection 35	A131602	34,000
Laws of 2012, Chapter 226, Section 29, Subsection 36	A131603	9,500
Laws of 2012, Chapter 226, Section 29, Subsection 36	A131604	15,000
Laws of 2012, Chapter 226, Section 29, Subsection 38	A131605	25,000
Laws of 2014, Chapter 64, Section 59	A131606	16,000
Laws of 2014, Chapter 64, Section 60	A131607	16,400
Laws of 2012, Chapter 226, Section 29, Subsection 41	A131608	25,000
Laws of 2016, Chapter 83, Section 70	A141581	215,500
Laws of 2014, Chapter 66, Section 15, Subsection 1	A141585	30,000
Laws of 2014, Chapter 66, Section 15, Subsection 2	A141586	49,985
Laws of 2014, Chapter 66, Section 15, Subsection 3	A141587	6,000,000
Laws of 2014, Chapter 66, Section 15, Subsection 4	A141588	2,100,000
Laws of 2014, Chapter 66, Section 15, Subsection 5	A141589	1,000,000
Laws of 2014, Chapter 66, Section 15, Subsection 6	A141590	800,000
Laws of 2014, Chapter 66, Section 15, Subsection 7	A141591	-
Laws of 2014, Chapter 66, Section 15, Subsection 8	A141592	-
Laws of 2014, Chapter 66, Section 15, Subsection 9	A141593	198,050
Laws of 2014, Chapter 66, Section 15, Subsection 10	A141594	300,000
Laws of 2014, Chapter 66, Section 21, Subsection 1	A141792	-
Laws of 2014, Chapter 66, Section 21, Subsection 2	A141793	45,000
Laws of 2014, Chapter 66, Section 21, Subsection 3	A141794	25,000
Laws of 2014, Chapter 66, Section 21, Subsection 4	A141795	50,000
Laws of 2014, Chapter 66, Section 21, Subsection 5	A141796	-
Laws of 2014, Chapter 66, Section 21, Subsection 6	A141797	100,000
Laws of 2014, Chapter 66, Section 21, Subsection 7	A141798	60,000
Laws of 2014, Chapter 66, Section 21, Subsection 8	A141799	-
Laws of 2014, Chapter 66, Section 21, Subsection 9	A141800	35,000
Laws of 2014, Chapter 66, Section 21, Subsection 10	A141801	25,000
Laws of 2014, Chapter 66, Section 21, Subsection 11	A141802	-
Laws of 2014, Chapter 66, Section 21, Subsection 12	A141803	100,000
Laws of 2014, Chapter 66, Section 21, Subsection 13	A141804	45,000
Laws of 2014, Chapter 66, Section 21, Subsection 14	A141805	-
Laws of 2015, Chapter 147, Section 59	A141806	25,000

See independent auditors' report.

Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumbered Balances
06/01/2013-06/30/2019	\$ 32,364	\$ -	\$ 7,636
06/01/2013-06/30/2017	25,000	-	-
06/01/2013-06/30/2017	29,983	-	17
06/01/2013-06/30/2017	20,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2019	40,000	-	-
06/01/2013-06/30/2019	50,000	-	-
06/01/2013-06/30/2017	4,800	-	-
06/01/2013-06/30/2017	16,000	-	-
06/01/2013-06/30/2017	10,000	-	-
06/01/2013-06/30/2019	82,667	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	93,869	-	131
06/01/2013-06/30/2017	25,000	-	-
06/01/2013-06/30/2017	34,000	-	-
06/01/2013-06/30/2017	-	-	-
06/01/2013-06/30/2017	15,000	-	-
06/01/2013-06/30/2019	-	-	-
03/11/2014-06/30/2017	16,000	-	-
03/11/2014-06/30/2017	16,400	-	-
06/01/2013-06/30/2017	24,997	-	3
03/09/2016-06/30/2018	-	-	215,500
03/11/2014-06/30/2018	30,000	-	-
03/11/2014-06/30/2018	49,985	-	-
03/11/2014-06/30/2018	1,022,132	-	4,977,868
03/11/2014-06/30/2018	2,070,846	15,882	13,272
03/11/2014-06/30/2018	1,000,000	-	-
03/11/2014-06/30/2018	50,000	-	750,000
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	198,050	-	-
03/11/2014-06/30/2018	261,992	38,008	-
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	45,000	-	-
03/11/2014-06/30/2018	25,000	-	-
03/11/2014-06/30/2018	21,680	23,644	4,676
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	100,000	-	-
03/11/2014-06/30/2018	-	3,866	56,134
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	20,184	-	14,816
03/11/2014-06/30/2018	11,651	2,966	10,383
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	100,000	-	-
03/11/2014-06/30/2018	45,000	-	-
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	-	25,000	-

See independent auditors' report.

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, 2017

Description	SHARE Identifier #	Original Appropriation
Laws of 2014, Chapter 66, Section 21, Subsection 16	A141807	\$ 20,000
Laws of 2014, Chapter 66, Section 21, Subsection 17	A141808	50,000
Laws of 2014, Chapter 66, Section 21, Subsection 18	A141809	-
Laws of 2014, Chapter 66, Section 21, Subsection 19	A141810	50,000
Laws of 2014, Chapter 66, Section 21, Subsection 20	A141811	-
Laws of 2014, Chapter 66, Section 21, Subsection 21	A141812	-
Laws of 2014, Chapter 66, Section 21, Subsection 22	A141813	30,000
Laws of 2014, Chapter 66, Section 21, Subsection 23	A141814	71,000
Laws of 2014, Chapter 66, Section 21, Subsection 24	A141815	-
Laws of 2014, Chapter 66, Section 21, Subsection 25	A141816	-
Laws of 2014, Chapter 66, Section 21, Subsection 26	A141817	25,000
Laws of 2014, Chapter 66, Section 21, Subsection 27	A141818	75,000
Laws of 2014, Chapter 66, Section 21, Subsection 28	A141819	67,000
Laws of 2014, Chapter 66, Section 21, Subsection 29	A141820	50,000
Laws of 2014, Chapter 66, Section 21, Subsection 30	A141821	-
Laws of 2014, Chapter 66, Section 21, Subsection 31	A141822	15,000
Laws of 2014, Chapter 66, Section 21, Subsection 32	A141823	25,000
Laws of 2014, Chapter 66, Section 21, Subsection 33	A141824	50,000
Laws of 2014, Chapter 66, Section 21, Subsection 34	A141825	900,000
Laws of 2014, Chapter 66, Section 21, Subsection 35	A141826	450,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 1	A150483	300,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 2	A150484	400,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 3	A150485	35,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 4	A150486	275,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 5	A150487	375,000
Laws of 2015 1st SS, Chapter 3, Section 18, Subsection 6	A150488	150,000
Laws of 2015 1st SS, Chapter 3, Section 19	A150489	8,200,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 1	A150630	40,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 2	A150631	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 3	A150632	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 5	A150633	15,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 6	A150634	20,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 7	A150635	100,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 8	A150636	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 9	A150637	10,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 10	A150638	15,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 11	A150639	65,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 12	A150640	10,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 13	A150641	10,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 14	A150642	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 15	A150643	25,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 16	A150644	25,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 17	A150645	40,050
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 18	A150646	10,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 19	A150647	40,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 20	A150648	50,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 21	A150649	65,000

See independent auditors' report.

Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumbered Balances
03/11/2014-06/30/2018	\$ 15,437	\$ -	\$ 4,563
03/11/2014-06/30/2018	20,916	-	29,084
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	22,656	17,094	10,250
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	30,000	-	-
03/11/2014-06/30/2018	71,000	-	-
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	25,000	-	-
03/11/2014-06/30/2018	5,885	28,564	40,551
03/11/2014-06/30/2018	67,000	-	-
03/11/2014-06/30/2018	50,000	-	-
03/11/2014-06/30/2018	-	-	-
03/11/2014-06/30/2018	-	-	15,000
03/11/2014-06/30/2018	25,000	-	-
03/11/2014-06/30/2018	50,000	-	-
03/11/2014-06/30/2018	756,900	143,100	-
03/11/2014-06/30/2018	241,036	7,163	201,801
06/17/2015-06/30/2019	231,763	68,237	-
06/17/2015-06/30/2019	-	-	400,000
06/17/2015-06/30/2019	21,779	7,619	5,602
06/17/2015-06/30/2019	-	-	275,000
06/17/2015-06/30/2019	375,000	-	-
06/17/2015-06/30/2019	-	-	-
06/17/2015-06/30/2019	8,200,000	-	-
06/17/2015-06/30/2019	32,933	-	7,067
06/17/2015-06/30/2019	-	-	30,000
06/17/2015-06/30/2019	29,471	-	529
06/17/2015-06/30/2019	15,000	-	-
06/17/2015-06/30/2019	-	-	20,000
06/17/2015-06/30/2019	24,862	-	75,138
06/17/2015-06/30/2019	-	-	30,000
06/17/2015-06/30/2019	-	-	10,000
06/17/2015-06/30/2019	-	-	15,000
06/17/2015-06/30/2019	-	-	65,000
06/17/2015-06/30/2019	-	-	10,000
06/17/2015-06/30/2019	4,977	5,023	-
06/17/2015-06/30/2019	29,220	-	780
06/17/2015-06/30/2019	-	-	25,000
06/17/2015-06/30/2019	-	-	25,000
06/17/2015-06/30/2019	40,050	-	-
06/17/2015-06/30/2019	-	-	10,000
06/17/2015-06/30/2019	12,050	-	27,950
06/17/2015-06/30/2019	-	30,916	19,084
06/17/2015-06/30/2019	65,000	-	-

See independent auditors' report.

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, 2017

Description	SHARE Identifier #	Original Appropriation
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 22	A150650	\$ 100,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 23	A150651	80,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 24	A150652	30,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 25	A150653	65,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 26	A150654	39,000
Laws of 2015 1st SS, Chapter 3, Section 27, Subsection 27	A150655	50,000
Laws of 2015 1st SS, Chapter 3, Section 84	A151083	2,000,000
Laws of 2015 1st SS, Chapter 3, Section 89	A151088	2,000,000
Laws of 2015 1st SS, Chapter 3, Section 90, Subsection 1	A151089	420,000
Laws of 2015 1st SS, Chapter 3, Section 90, Subsection 2	A151090	1,000,000
Laws of 2016, 1st SS, Chapter 1,	A16A2646	2,000,000
Laws of 2016, 1st SS, Chapter 1, Section 3F	A16A2656	500,000
Laws of 2016, 1st SS, Chapter 1, Section 3G	A16A2657	500,000
Laws of 2016, Chapter 81, Section 17, Subsection 1	A16A2241	589,000
Laws of 2016, Chapter 81, Section 17, Subsection 2	A16A2242	550,000
Laws of 2016, Chapter 81, Section 17, Subsection 3	A16A2243	1,000,000
Laws of 2016, Chapter 81, Section 21, Subsection 21	A16A2360	94,000
Laws of 2016, Chapter 293, Section A	A16A0002	1,839,703
Total Capital Outlay Appropriations - Fund 892		\$ 68,153,998

Total unexpended balance

Reconciliation to fund balance (89200)

Less: Severance tax bond - revenue accrued on reimbursement basis

Fund Balance after reconciling items

Fund balance per financial statements

Difference

FUND 21400 OSE General Fund

Laws of 2016 SS, Chapter 11, Section 5, Item 32	ZA0532	\$ 1,500,000
Laws of 2017, Chapter 135, Section 5, Item 16	ZB0516	1,000,000
Laws of 2017, Chapter 135, Section 6, item 9	ZB0609	1,857,100
Total Special Appropriations - Fund 214		\$ 4,357,100

FUND 20170 Indian Water Rights Settlement

Laws of 2009, Chapter 5, Section 2, Subsection B (11)	A093009	\$ 10,000,000
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Total unexpended balance

FUND 32600 Irrigation Works Construction Fund

FUND 93100 General Fund Capital Outlay

Laws of 2015 1st SS, Chapter 3, Section 48	A151032	\$ -
Laws of 2015 1st SS, Chapter 3, Section 49	A151033	-

See independent auditors' report.

Appropriation Period	Expenditures To Date	Outstanding Encumbrances	Unencumbered Balances
06/17/2015-06/30/2019	\$ -	\$ -	\$ 100,000
06/17/2015-06/30/2019	79,626	-	374
06/17/2015-06/30/2019	-	-	30,000
06/17/2015-06/30/2019	65,000	-	-
06/17/2015-06/30/2019	39,000	-	-
06/17/2015-06/30/2019	50,000	-	-
06/17/2015-06/30/2019	2,000,000	-	-
06/17/2015-06/30/2019	1,745,000	-	255,000
06/17/2015-06/30/2019	420,000	-	-
06/17/2015-06/30/2019	1,000,000	-	-
03/09/2016-06/30/2020	-	-	2,000,000
non-reverting	-	-	500,000
03/09/2016-06/30/2020	-	-	500,000
03/09/2016-06/30/2020	-	-	589,000
03/09/2016-06/30/2020	-	-	550,000
03/09/2016-06/30/2020	21,687	306,771	671,542
03/09/2016-06/30/2020	-	-	94,000
non-reverting	367,941	-	1,471,762
	<u>\$ 48,296,591</u>	<u>\$ 723,853</u>	<u>\$ 18,949,054</u>
			<u>\$ 19,672,907</u>
			<u>\$ (13,671,259)</u>
			<u>6,001,648</u>
			<u>(6,001,648)</u>
			<u>\$ -</u>
02/29/2016-06/30/2017	\$ 1,410,600	\$ -	\$ 89,400
04/07/2017-06/30/2018	-	-	1,000,000
04/07/2017-06/30/2017	1,856,940	-	160
	<u>\$ 3,267,540</u>	<u>\$ -</u>	<u>\$ 1,089,560</u>
non-reverting	\$ 9,453,629	\$ -	\$ 546,371
			<u>\$ 546,371</u>
06/17/2015-06/30/2019	\$ -	\$ -	\$ -
06/17/2015-06/30/2019	-	-	-
			<u>\$ 1,000,000</u>

See independent auditors' report.

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COMPLIANCE SECTION

**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***

INDEPENDENT AUDITORS' REPORT

Tim Keller
New Mexico State Auditor
Tom Blaine, P.E.
New Mexico State Engineer
Office of the State Engineer/Interstate Stream Commission
Santa Fe, New Mexico

We have audited, 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, 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 New Mexico Office of the State Engineer (the "Agency") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 31, 2017.

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 Agency'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 governances.

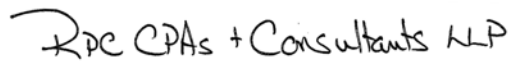
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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*.

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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
October 31, 2017

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Schedule of Findings and Responses
June 30, 2017

Section I – Summary of Auditors’ Results

Financial Statements:

1. Type of auditors’ report issued	Unmodified
2. Internal Control over financial Reporting	
a. Material weaknesses identified?	None Noted
b. Significant deficiencies identified not considered to be material weaknesses?	None Noted
c. Noncompliance material to the financial statements noted?	None Noted

STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Schedule of Findings and Responses
June 30, 2017

Section II – Financial Statement Findings

None noted.

Section III – Section 12-6-5 NMSA 1978 Findings

None noted.

Section IV – Prior Year Audit Findings

FS 2016-001 Controls Over Disbursements – Significant Deficiency - Resolved

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STATE OF NEW MEXICO
Office of the State Engineer / Interstate Stream Commission
Other Disclosures
June 30, 2017

Exit Conference

An exit conference was held on October 25, 2017. The following individuals were in attendance.

Representing New Mexico Office of the State Engineer/Interstate Stream Commission

Tom Blaine, P.E.
Jeff Primm
Monica Trujillo

State Engineer
Program Support Director
Chief Financial Officer

Representing RPC CPAs + Consultants, LLP:

Danny Martinez, CPA, CGFM
Eric Spurlin, CPA

Audit Partner
Audit Supervisor

Auditor Prepared Financial Statements

RPC CPAs + Consultants, LLP prepared the GAAP-basis financial statements and footnotes of the Agency from the original books and records provided to them by the management of the Agency. The responsibility for the financial statements remains with the Agency.