

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE
CONSERVANCY DISTRICT**

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT**

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STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Official Roster
June 30, 2016

JUDGES OF THE DISTRICT COURT
SECOND JUDICIAL DISTRICT OF THE STATE OF NEW MEXICO

| | |
|----------------------------------|-----------------|
| Honorable William Parnall | Division No. 1 |
| Honorable Stan Whitaker | Division No. 2 |
| Honorable Brett R. Loveless | Division No. 3 |
| Honorable Beatrice J. Brickhouse | Division No. 4 |
| Honorable Nancy J. Franchini | Division No. 5 |
| Honorable Briana Zamora | Division No. 6 |
| Honorable John J. Romero Jr. | Division No. 7 |
| Honorable Cristina T. Jaramillo | Division No. 8 |
| Honorable David Williams | Division No. 9 |
| Honorable Christina P. Argyres | Division No. 10 |
| Honorable Gerard Lavelle | Division No. 11 |
| Honorable Clay Campbell | Division No. 12 |
| Honorable Valerie A. Huling | Division No. 13 |
| Honorable Marie Ward | Division No. 14 |
| Honorable Alan Malott | Division No. 15 |
| Honorable Carl Butkus | Division No. 16 |
| Honorable Nan G. Nash | Division No. 17 |
| Honorable Denise Barela-Shepherd | Division No. 18 |
| Honorable Benjamin Chavez | Division No. 19 |
| Honorable Jacqueline D. Flores | Division No. 20 |
| Honorable Alisa Hadfield | Division No. 21 |
| Honorable Deborah Davis Walker | Division No. 22 |
| Honorable Shannon Bacon | Division No. 23 |
| Honorable Debra Ramirez | Division No. 24 |
| Honorable Elizabeth Whitefield | Division No. 25 |
| Honorable Charles Brown | Division No. 26 |
| Honorable Victor Lopez | Division No. 27 |

BOARD OF DIRECTORS

| | <u>Position No.</u> | <u>County</u> |
|--------------------------|---------------------|---------------|
| Derrick J. Lente, Chair | 7 | Sandoval |
| Glen Duggins, Vice-Chair | 1 | At-Large |
| John Kelly | 2 | Bernalillo |
| Karen Dunning | 3 | Bernalillo |
| Adrian Oglesby | 4 | Bernalillo |
| Beverly Dominguez Romero | 5 | Valencia |
| Chris Sichler | 6 | Socorro |

OFFICERS

| | |
|------------------------------------|------------------------|
| Mike Hamman | CEO / Chief Engineer |
| David M. Ferguson | Secretary/Treasurer |
| Jeanette Bustamante | Administrative Officer |
| Wiggins, Williams & Wiggins | General Counsel |
| Law & Resource Planning Associates | Chief Water Counsel |

Independent Auditor's Report

The Judges of the District Court of the
Second Judicial District of the
State of New Mexico and
The Board of Directors of the
Middle Rio Grande Conservancy District and
Mr. Timothy Keller, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison for the general fund of the Middle Rio Grande Conservancy District, (District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements which collectively comprise the District'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 misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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 and each major fund of the District as of June 30, 2016 and 2015 and the respective changes in financial position and the respective budgetary comparisons for the general fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2016 the District adopted GASBS No. 82 *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73* which requires a restatement of employer “pickup” contributions that are now considered employee contributions for purposes of calculations of the employer allocation percentage. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 5-11, GASB 68 required supplementary pension schedules on pages 53-55, and the schedule of funding progress for the retiree health and dental insurance plan on page 56 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 inquires 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.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the District’s financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund that collectively comprise the District’s basic financial statements. The accompanying schedule of cash accounts and pledged collateral as of June 30, 2016 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of cash accounts and pledged collateral at June 30, 2016 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash accounts and pledged collateral at June 30, 2016 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The Schedule of Vendor Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, on our consideration of the District'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 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 District's internal control over financial reporting and compliance.

Ricci & Company LLC

Albuquerque, New Mexico
December 2, 2016

MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2016
(Required Supplementary Information)

The Middle Rio Grande Conservancy District (District) operates, maintains and manages irrigation, drainage, and river flood control in the Middle Rio Grande Valley. Additional information about the District and its mission can be found in Note 1. The District relies solely on the revenues it collects from ad valorem assessments (through the county treasurers), water service charges, water bank fees and miscellaneous revenue it collects from contracts with governmental entities and others. We must also manage our expenses within these revenues and any reserves available. For several years, expenses exceeded revenues resulting in the drawing down of reserves. It has become necessary to increase the ad valorem mill and water service charge rates over the past three fiscal years. During this time management has sought to control expenditures in order to bring revenues and recurring expenses in balance.

The District is also seeking ways to leverage other funding sources such as state and federal grants for projects and non-recurring expenditures. The District was successful in hiring a grants consultant and we were able to secure two federal grants totaling \$500,000 in federal matching monies over the next two federal fiscal years.

The District's management discussion and analysis will provide an overview of the District's financial activities and management's decisions that have impacted the financial activities for the fiscal year ending June 30, 2016. Mike Hamman, CEO and Chief Engineer is continuing to implement changes that are having a positive impact on the operations of the District. These include securing the federal grant funds to help with water distribution and to study the impact drought conditions could have on the District and how we can better address those issues. We are continuing to look at positive ways to address an aging fleet and infrastructure as well as improving productivity through implementation of best business practices and elimination of identified inefficiencies.

This annual report consists of two types of financial statements, Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position provides information on the entire District's assets and liability while the Statement of Activities reflects all the District's revenues and expenses for the current year regardless of when cash is received or paid.

Fund Financial Statements

Fund financial statements include the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances and give more detailed information for the reader about how services were financed in the short-term as well as what remains for future spending. Fund financial statements provide detail about the District's most significant funds. This discussion and analysis should be read in conjunction with the financial statements.

MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2016
(Required Supplementary Information)

The following table presents the Statement of Net Position and the Statement of Activities in a condensed format. Explanations of some of the significant changes in these statements follow the table.

| | Statement of Net Position | | |
|--|----------------------------------|----------------------|-----------------------|
| | FY 2016 | FY 2015 | Percent Change |
| Assets | | | |
| Current and other short term assets | \$ 24,720,969 | \$22,082,322 | 11.95% |
| Long term assets | 2,623,784 | 2,623,784 | 0.00% |
| Capital assets, net of depreciation | 25,182,839 | 24,193,944 | 4.09% |
| Total Assets | <u>52,527,319</u> | <u>48,900,050</u> | 7.42% |
| Deferred Outflows of Resources | 766,736 | 766,746 | 0.00% |
| Liabilities | | | |
| Current Liabilities | 2,677,036 | 1,141,150 | 134.59% |
| Long term liabilities excluding | 5,151,785 | 4,805,728 | 7.20% |
| Net pension liability | 9,829,835 | 7,606,046 | 29.24% |
| Total Liabilities | <u>17,658,656</u> | <u>13,552,924</u> | 30.29% |
| Deferred Inflows of Resources | 317,589 | 2,980,841 | -89.35% |
| Net Position | | | |
| Invested in Capital Assets | 25,052,962 | 24,056,597 | 4.14% |
| Unrestricted | 10,624,848 | 9,076,434 | 13.09% |
| Total Net Position | <u>\$ 35,317,810</u> | <u>\$ 33,133,031</u> | 6.59% |
| Statement of Activities | | | |
| Revenues | | | |
| Program Revenues | \$ 4,447,570 | \$ 5,593,326 | -20.48% |
| General Revenues | 15,994,723 | 14,949,012 | 7.00% |
| Total Revenues | <u>20,442,293</u> | <u>20,542,338</u> | -0.49% |
| Expenses | | | |
| Public Works | 18,257,514 | 17,840,632 | 2.34% |
| Change in Net Position | 2,184,779 | 2,701,706 | -19.13% |
| Net Position, Beginning of Year | 33,133,031 | 31,212,050 | 6.15% |
| Prior Period adjustment | - | (780,725) | 100.00% |
| Net Position, End of Year | <u>\$ 35,317,810</u> | <u>\$ 33,133,031</u> | 6.59% |

MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2016
(Required Supplementary Information)

FINANCIAL HIGHLIGHTS – STATEMENT OF NET POSITION

ASSETS

- Total Assets increased in fiscal year 2016 by \$3.6 million primarily as a result of capturing the construction costs of the San Acacia to Bosque del Apache levee project (San Acacia project) and the change in cash (see below for details).
- Current and other short term assets increased by 11.95% or \$2.6 million. Cash and investments are up \$1.1 million and the District has recognized the \$1.5 million due from the New Mexico Finance Authority for the San Acacia Project that was outstanding as of June 30, 2016.
- Capital Assets increased approximately \$1.0 million; \$1.5 million as a result of the District's participation in the San Acacia project offset by a \$500 thousand reduction in depreciable property attributable to depreciation expense exceeding the cost of new additions.

LIABILITIES

- Total Liabilities increased by \$4.1 million in fiscal year 2016. Vouchers Payable increased by \$1.5 million from recognition of monies due to the US Department of the Army for the San Acacia project. Net pension liability increased by \$2.4 million.
- Long term liabilities excluding the net pension liability increased by \$346,057 due to an increase in the funding component of the retiree health benefits.

FINANCIAL HIGHLIGHTS - STATEMENT OF ACTIVITIES

- Total revenues were relatively flat during the last fiscal year. As the result of a mill rate increase, General Revenues increased by \$1.1 million while Program Revenues decreased by \$1.1 million. In fiscal year 2015 the San Acacia Project recognized almost \$3.0 million as compared to \$1.5 million in fiscal year 2016. This was offset by an increase in the Water Service Charge revenues that resulted from a rate increase approved by the Board of Directors.
- Fiscal year 2016 Program Expenses were \$416,882 more than fiscal year 2015. General and administrative expenses increased by \$255,000 which accounted for 60% of the increase. Personnel services and employee benefits were slightly higher than the previous year.

MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2016
(Required Supplementary Information)

GENERAL FUND BUDGETARY HIGHLIGHTS

The District prepares its budget each year using historical information combined with knowledge of activities planned for the following year. The budget undergoes internal scrutiny and adjustment by the Treasurer and the CEO. It is then submitted to the Finance Committee before going to the Board of Director's for review and approval. Once the budget is adopted by the Board it is submitted to the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) for approval. This must be done by June 1st of each year. The DFA must approve the budget prior to its legal enactment. The original fiscal year budget as presented was approved by the District's Board of Directors and DFA. The District does not adopt a legal budget for the special revenue fund. The expenditures of the general fund may not legally exceed the budget.

The budgetary comparisons are presented on a non-GAAP budgetary basis. For the fiscal year ended June 30, 2016, the District budgeted expenditures exceeded revenues by \$2,678,370. Reserves of cash invested in the Local Government Investment Pool were used to balance the budget and complete the budget process.

Budget to Actual (Non-GAAP Budgetary Basis) General Fund:

For the year ended June 30, 2016, revenues were \$20,467,908. Total Ad Valorem Assessment Revenue was \$15,289,981 or \$1,416,290 more than expected. Prior budgets used property valuations that were one year old as the newer data was not available to use in the current budget. An adjustment has been made to estimate the increase in valuations using historical data which will bring budgets closer to actual revenues. This new method was used to determine revenues for the fiscal year 2017 budget.

For the year ended June 30, 2016, expenditures were \$19,342,074 while budgeted expenditures were \$21,427,491 resulting in a favorable variance of \$2,085,417. Salaries and benefits were approximately \$973,895 less than budgeted due to vacancy savings. Field expenses were \$1 million less than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets net of depreciation increased by just under \$1.0. The San Acacia to Bosque del Apache levee project resulted in increased costs of \$1.5 million. Asset additions less normal accumulated depreciation netted an offset of approximately \$500,000.

MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2016
(Required Supplementary Information)

DISTRICT HIGHLIGHTS

Change in Mill Rate

- On May 23, 2016 the District's Board of Directors increased the mill rate levy to \$4.598 for residential customers and \$5.7446 for non-residential customers effective with the assessments mailed out in the later part of 2016. They also increased the water service charge from \$34 per acre to \$37 per acre beginning with calendar year 2017.
- District management believes these rate increases had to be implemented to keep revenues in line with recurring operating costs. Management is committed to monitoring its expenses and to keeping them in line with needs and requirements of operations realizing that revenues had not kept up with operational needs. Therefore, rate increases were recommended to the Board of Directors. Further analysis is being performed to determine if additional increases are needed going forward. In addition, funding for non-recurring and major capital needs are being looked at separately and alternative funding sources are being sought.

Asset Management Plan

- The District continues to work on developing an asset management plan for its aging vehicles and equipment. Management is researching various options to phase in the replacement of vehicle to minimize the impact on current budgets. These options include leasing some equipment in the short term, purchasing quality minimally used equipment, replacing in the near term only that equipment that is no longer cost effective to repair along with other options.

Outstanding Receivable from the Corp of Engineers

- The District has an outstanding receivable from the United States Department of the Army related to the Albuquerque West Levee project in the amount of \$2.6 million. Steps are being taken to realize this revenue either in cash or in in-kind contributions for future projects with the Department of the Army. When the revenue is received, the District has an offsetting liability to Bernalillo County and AMFACA to repay them \$811,770.

MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2016
(Required Supplementary Information)

San Acacia to Bosque del Apache Project

- In August 2014 the District along with the New Mexico Interstate Stream Commission and the United States Department of the Army signed a project partnership agreement for this project. This project is expected to replace approximately 43 miles of spoil bank along the west bank of the Rio Grande with an engineered levee. Non-federal sponsors which include the District has invested over \$8.9 million into this project. Additional information about this project can be found in Note 13 to the financial statements.

Contract with the Bureau of Indian Affairs

- The District and BIA have completed the negotiations to renew a contract to perform operations and maintenance on the Six Middle Rio Grande Pueblos' facilities on trust lands. The contract began March 2016 and will be in effect for three years with two renewal years. Payment provision requires a minimum annual payment that for services rendered that includes upward adjustments scaled to ad valorem and water service charge increases over time.

Inventory Monitoring and Reduction

- The management team continues to look at the inventory on hand and how it can be reduced. Inventory has been reduced from \$1.1 million at fiscal year ending June 30, 2014 to \$854 thousand at fiscal year end June 30, 2016. This will be an ongoing effort due to the quantities of inventory currently on hand that need to be reduced to manageable levels.

Accrued Compensated Balances

- The accrued compensated balances have represented a large liability on the balance sheet for several years. The Board of Directors, at the request of CEO, approved a plan to buy down the annual leave portion of this liability over a three year period and to cap the annual leave carryover balances at 240 hours per employee beginning in calendar year 2018. Employees will no longer be allowed to carryover 'large' annual leave balances unless there are extenuating circumstances and the carryforward has been approved by the Human Resources Director and the CEO. The first payout occurred in June 2015 for approximately \$46,000. A second payout was made in February 2016 for approximately \$49,000. In addition, several tenured employees retired during the year resulting in leave payouts that also reduced the outstanding balances. The third payout will be made in February 2017 for all balances in excess of 240 hours.

MIDDLE RIO GRANDE CONSERVANCY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2016
(Required Supplementary Information)

Five Year Plan

- The District management is in the process of developing a five year plan that will assist in the budgeting process and also the direction for the entire District. Managers have been asked to look at infrastructure and equipment needs for the next five years and develop a strategy for these needs which can be incorporated into a blueprint for the District operations. The plan is in the early stages of development and will help inform management and the Board in developing out-year operating budgets and capital outlay.

Economic Factors and Next Year's Budget

The approved budget for fiscal year 2017 is \$20,104,528 a 6.2% decrease from fiscal year 2016. Revenues are projected to be \$19,773,955 or 5.5% more than the prior fiscal year's budgeted revenues. This budget calls for reserves of \$330,573 to be set aside to balance the budget. Management is committed to monitoring expenses during the year to minimize the use of surplus funds.

As stated earlier, rate increases have been approved to bring revenues more in line with required expenditures. It is anticipated that additional rates increases may be necessary to balance the budget and to allow for the replacement of aging equipment and repairs to infrastructure. The District is also working to locate additional revenue sources such as state and federal grants to help in the budget process. The District applied for and received two grants related to drought contingency. Both grants cover the next two fiscal years and the total grants are for \$400,000 and \$600,000.

CONTACTING DISTRICT MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, legislators, and other stakeholders a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

Middle Rio Grande Conservancy District
1931 Second Street SW
PO Box 581
Albuquerque, NM 87103
(505) 247-0234

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF NET POSITION
GOVERNMENT-WIDE
June 30, 2016 and 2015

| | <u>Governmental Activities</u> | |
|---|--------------------------------|-------------------|
| | 2016 | 2015 |
| ASSETS | | |
| Cash and cash equivalents | \$ 3,539,713 | 2,434,743 |
| Investment in Local Government Investment Pool | 16,032,837 | 16,016,859 |
| Funds held with NMFA | 1,500,000 | - |
| Current receivables, net: | | |
| Ad valorem assessments, net of allowance of \$200,154 and \$328,917 | 1,913,193 | 1,933,641 |
| Water service and delinquency charges, net of allowance of \$213,400 and \$255,800 | 322,946 | 284,668 |
| Government Contracts | | |
| Federal | 60,154 | 111,649 |
| Local | 226,008 | 224,437 |
| Other receivables | 261,997 | 158,077 |
| Material and supply inventories, at cost | 853,592 | 918,248 |
| Prepaid expenses | 10,256 | - |
| Contract receivable from United States Department of the Army due after one year | 2,623,784 | 2,623,784 |
| Capital assets | | |
| Land | 457,094 | 457,134 |
| Construction in progress | 5,681,753 | 4,181,753 |
| Depreciable property, equipment, and infrastructure, net of accumulated depreciation | 19,043,992 | 19,555,057 |
| Total assets | <u>52,527,319</u> | <u>48,900,050</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Employer contributions subsequent to measurement date | 766,736 | 766,746 |
| LIABILITIES | | |
| Vouchers payable | 1,767,701 | 140,020 |
| Accrued payroll and related benefits payable | 356,975 | 363,069 |
| Other liabilities | 42,907 | 30,408 |
| Accrued compensated absences: | | |
| Payable within one year | 501,965 | 600,183 |
| Payable after one year | 466,341 | 484,553 |
| Note payable: | | |
| Payable within one year | 7,488 | 7,470 |
| Payable after one year | 122,389 | 129,877 |
| Payable to local governments, due after one year | 811,770 | 811,770 |
| Net pension liability | 9,829,835 | 7,606,046 |
| Obligation for postemployment benefits, payable after one year | 3,751,285 | 3,379,528 |
| Total liabilities | <u>17,658,656</u> | <u>13,552,924</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows related to pensions | 317,589 | 2,980,841 |
| NET POSITION | | |
| Net investment in capital assets | 25,052,962 | 24,056,597 |
| Unrestricted | 10,264,848 | 9,076,434 |
| Total net position | <u>\$ 35,317,810</u> | <u>33,133,031</u> |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
GOVERNMENT-WIDE
Years Ended June 30, 2016 and 2015

| | Governmental Activities | |
|--|--------------------------------|---------------------|
| | 2016 | 2015 |
| Program Expenses | | |
| Public works: | | |
| Personnel services | \$ 8,227,460 | 8,182,932 |
| Employee benefits | 3,676,108 | 3,634,247 |
| Contractual operating and maintenance services | 676,774 | 654,473 |
| Field expenses | 1,932,107 | 1,987,256 |
| General and administrative expenses | 2,519,799 | 2,264,787 |
| Interest expense | 343 | 645 |
| Depreciation | 1,423,487 | 1,457,684 |
| Internal costs capitalized | (198,564) | (341,392) |
| Total program expenses | 18,257,514 | 17,840,632 |
| Program Revenues | | |
| Charges for services: | | |
| Water services assessments | 1,867,152 | 1,627,265 |
| Program specific operating grants: | | |
| Federal | 801,843 | 767,285 |
| Local | 278,575 | 276,947 |
| Program specific capital grants: | | |
| Federal | 1,500,000 | 2,921,829 |
| Total program revenues | 4,447,570 | 5,593,326 |
| Net program expense | (13,809,944) | (12,247,306) |
| General revenues | | |
| Ad valorem assessments | 15,250,308 | 14,168,297 |
| Delinquency charges | 268,369 | 266,131 |
| Transfers in - severance tax appropriation | 53,672 | - |
| Investment income | 42,252 | 31,207 |
| Gain on equipment and property removal | 7,490 | 129,020 |
| Gain on land sales and water bank leases | 214,237 | 185,073 |
| Other revenue | 158,395 | 169,284 |
| Total general revenues | 15,994,723 | 14,949,012 |
| Increase in net position | 2,184,779 | 2,701,706 |
| Net position, beginning of year | 33,133,031 | 31,212,050 |
| Restatement - GASBS 82 implementation | - | (780,725) |
| Net position, beginning of year, as restated | 33,133,031 | 30,431,325 |
| Net position, end of year | \$ 35,317,810 | 33,133,031 |

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016 with Comparative 2015 Totals

| | Governmental Funds | | | |
|---|----------------------|--------------------|-------------------|-------------------|
| | General | Special Revenue | Total 2016 | Total 2015 |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,307,871 | 1,231,842 | 3,539,713 | 2,434,743 |
| Investment in Local Government Pool | 9,441,211 | 6,591,626 | 16,032,837 | 16,016,859 |
| Funds held with NMFA | 1,500,000 | - | 1,500,000 | - |
| Current receivables, net: | | | | |
| Ad valorem assessments, net of allowance of \$200,154 | 1,913,193 | - | 1,913,193 | 1,933,641 |
| Water service and delinquency charges, net of allowance of \$213,400 | 322,946 | - | 322,946 | 284,668 |
| Governmental Contracts | | | | |
| Federal | 60,154 | - | 60,154 | 111,649 |
| Local | 226,008 | - | 226,008 | 224,437 |
| Interfund receivable | - | - | - | 25,391 |
| Other receivables | 261,997 | - | 261,997 | 158,077 |
| Material and supply inventories, at cost | 853,592 | - | 853,592 | 918,248 |
| Prepaid expenses | 10,256 | - | 10,256 | - |
| Contract receivable from United States Department of Army, due after one year | 2,623,784 | - | 2,623,784 | 2,623,784 |
| Total assets | \$ 19,521,012 | 7,823,468 | 27,344,480 | 24,731,497 |
| LIABILITIES | | | | |
| Vouchers payable | \$ 1,767,701 | - | 1,767,701 | 140,020 |
| Accrued payroll and related benefits payable | 356,975 | - | 356,975 | 363,069 |
| Interfund payable | - | - | - | 25,391 |
| Other liabilities | 42,907 | - | 42,907 | 30,408 |
| Payable to local governments, due after one year | 811,770 | - | 811,770 | 811,770 |
| Total liabilities | 2,979,353 | - | 2,979,353 | 1,370,658 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Revenue not available to pay current period expenditures | 4,185,486 | - | 4,185,486 | 3,871,073 |
| Total liabilities and deferred inflows of resources | 7,164,839 | - | 7,164,839 | 5,241,731 |
| FUND BALANCES | | | | |
| Nonspendable inventory and prepaids | 863,848 | - | 863,848 | 918,248 |
| Committed | - | 7,219,615 | 7,219,615 | 7,192,973 |
| Assigned | 2,229,732 | 603,853 | 2,833,585 | 5,377,393 |
| Unassigned | 9,262,593 | - | 9,262,593 | 6,001,152 |
| Total fund balances | 12,356,173 | 7,823,468 | 20,179,641 | 19,489,766 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 19,521,012 | 7,823,468 | 27,344,480 | 24,731,497 |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
June 30, 2015

| | General | Special Revenue | Governmental Funds |
|---|----------------------|--------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,255,178 | 1,179,565 | 2,434,743 |
| Investment in Local Government Pool | 9,425,232 | 6,591,627 | 16,016,859 |
| Current receivables, net: | | | |
| Ad valorem assessments, net of allowance of \$328,917 | 1,933,641 | - | 1,933,641 |
| Water service and delinquency charges, net of allowance of \$213,400 | 284,668 | - | 284,668 |
| Governmental Contracts | | | |
| Federal | 111,649 | - | 111,649 |
| Local | 224,437 | - | 224,437 |
| Interfund receivable | - | 25,391 | 25,391 |
| Other receivables | 158,077 | - | 158,077 |
| Material and supply inventories, at cost | 918,248 | - | 918,248 |
| Prepaid expenses | - | - | - |
| Contract receivable from United States Department of Army, due after one year | 2,623,784 | - | 2,623,784 |
| Total assets | \$ 16,934,914 | 7,796,583 | 24,731,497 |
| LIABILITIES | | | |
| Vouchers payable | \$ 140,020 | - | 140,020 |
| Accrued payroll and related benefits payable | 363,069 | - | 363,069 |
| Interfund payable | 25,391 | - | 25,391 |
| Other liabilities | 30,408 | - | 30,408 |
| Payable to local governments, due after one year | 811,770 | - | 811,770 |
| Total liabilities | 1,370,658 | - | 1,370,658 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Revenue not available to pay current period expenditures | 3,871,073 | - | 3,871,073 |
| Total liabilities and deferred inflows of resources | 5,241,731 | - | 5,241,731 |
| FUND BALANCES | | | |
| Nonspendable inventory and prepaids | 918,248 | - | 918,248 |
| Committed | - | 7,192,973 | 7,192,973 |
| Assigned | 4,773,783 | 603,610 | 5,377,393 |
| Unassigned | 6,001,152 | - | 6,001,152 |
| Total fund balances | 11,693,183 | 7,796,583 | 19,489,766 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 16,934,914 | 7,796,583 | 24,731,497 |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
RECONCILIATION OF THE BALANCE SHEETS TO THE STATEMENTS OF NET POSITION
GOVERNMENTAL FUNDS
June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|-------------------|
| Total fund balances (Balance sheet) | \$ 20,179,641 | 19,489,766 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 25,182,839 | 24,193,944 |
| Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds. | 4,185,486 | 3,871,073 |
| Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds | 449,147 | (2,214,095) |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Accrued compensated absences | (968,306) | (1,084,736) |
| Note payable | (129,877) | (137,347) |
| Net pension liability | (9,829,835) | (7,606,046) |
| Obligation for postemployment benefits | (3,751,285) | (3,379,528) |
| Total net position (statement of net position) | \$ 35,317,810 | <u>33,133,031</u> |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016 with
Comparative Totals for the Year Ended June 30, 2015

| | General | Revenue | Governmental Funds | |
|--|----------------------|------------------|--------------------|--------------------|
| | | | Total 2016 | Total 2015 |
| Revenues | | | | |
| Ad valorem assessments | \$ 15,285,813 | - | 15,285,813 | 14,160,780 |
| Water service assessments | 1,823,242 | - | 1,823,242 | 1,652,999 |
| Delinquency charges | 268,369 | - | 268,369 | 266,131 |
| Investment income | 41,777 | 475 | 42,252 | 31,206 |
| Contracts with governmental entities | | | | - |
| Federal | 721,843 | - | 721,843 | 849,719 |
| Local | 52,567 | - | 52,567 | 293,093 |
| Capital grants | 1,500,000 | - | 1,500,000 | 3,173,824 |
| Other | 158,395 | - | 158,395 | 169,284 |
| Water bank leases | 187,827 | - | 187,827 | 176,932 |
| Land sales | - | 26,410 | 26,410 | 8,141 |
| Total revenues | 20,039,833 | 26,885 | 20,066,718 | 20,782,109 |
| Expenditures | | | | |
| Public works | | | | |
| Current operations | 17,216,374 | - | 17,216,374 | 16,917,865 |
| Capital outlays | 2,213,858 | - | 2,213,858 | 5,405,142 |
| Debt service: | | | | |
| Principal | 7,470 | - | 7,470 | 13,049 |
| Interest | 343 | - | 343 | 645 |
| Total expenditures | 19,438,045 | - | 19,438,045 | 22,336,701 |
| Excess (deficiency) of revenues over expenditures | 601,788 | 26,885 | 628,673 | (1,554,592) |
| Other Finance Sources (Uses) | | | | |
| Transfers in - severance tax appropriation | 53,672 | - | 53,672 | - |
| Equipment disposition proceeds | 7,530 | - | 7,530 | 152,237 |
| Loan proceeds | - | - | - | 150,396 |
| Total other financing sources (uses) | 61,202 | - | 61,202 | 302,633 |
| Increase (decrease) in fund balances | 662,990 | 26,885 | 689,875 | (1,251,959) |
| Fund balances, beginning of year | 11,693,183 | 7,796,583 | 19,489,766 | 20,741,725 |
| Fund balances, end of year | \$ 12,356,173 | 7,823,468 | 20,179,641 | 19,489,766 |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

| | General | Special Revenue | Governmental Funds |
|--|----------------------|--------------------|-----------------------|
| Revenues | | | |
| Ad valorem assessments | \$ 14,160,780 | - | 14,160,780 |
| Water service assessments | 1,652,999 | - | 1,652,999 |
| Delinquency charges | 266,131 | - | 266,131 |
| Investment income | 30,736 | 470 | 31,206 |
| Contracts with governmental entities | | | |
| Federal | 849,719 | - | 849,719 |
| Local | 293,093 | - | 293,093 |
| Capital grants | 3,173,824 | - | 3,173,824 |
| Other | 169,284 | - | 169,284 |
| Water bank leases | 176,932 | - | 176,932 |
| Land sales | - | 8,141 | 8,141 |
| Total revenues | 20,773,498 | 8,611 | 20,782,109 |
| Expenditures | | | |
| Public works | | | |
| Current operations | 16,917,865 | - | 16,917,865 |
| Capital outlays | 5,405,142 | - | 5,405,142 |
| Debt service: | | | |
| Principal | 13,049 | - | 13,049 |
| Interest | 645 | - | 645 |
| Total expenditures | 22,336,701 | - | 22,336,701 |
| (Deficiency) excess of revenues over expenditures | (1,563,203) | 8,611 | (1,554,592) |
| Other Finance Sources (Uses) | | | |
| Equipment disposition proceeds | 152,237 | - | 152,237 |
| Loan proceeds | 150,396 | - | 150,396 |
| Total other financing sources (uses) | 302,633 | - | 302,633 |
| (Decrease) increase in fund balances | (1,260,570) | 8,611 | (1,251,959) |
| Fund balances, beginning of year | 12,953,753 | 7,787,972 | 20,741,725 |
| Fund balances, end of year | \$ 11,693,183 | 7,796,583 | 19,489,766 |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENTS OF ACTIVITIES
GOVERNMENTAL FUNDS
Years Ended June 30, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|------------------|
| Increase (decrease) in fund balances (statement of revenues, expenditures and changes in fund balances) | \$ 689,875 | (1,251,959) |
| Amounts reported for governmental activities in the statements of activities are different because: | | |
| Governmental funds report capital outlay as expenditures, while in the statements of activities the cost of these assets is capitalized. | 2,412,422 | 5,746,534 |
| Governmental funds do not report depreciation expense which is recorded in the statements of activities. | (1,423,487) | (1,457,684) |
| In the statements of activities, cost of assets disposed is included, whereas in the governmental funds the proceeds from asset dispositions are included. Thus, the change in net position differs from the change in fund balances by the net book value of assets disposed. | (40) | (578) |
| Revenues in the statements of activities that do not provide current financial resources are not reported as revenues in the funds, net of prior year effect. | 314,413 | (391,431) |
| Governmental funds do not report the net change in compensated absences | 116,430 | 126,350 |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. | | |
| Debt issued or incurred | - | (150,396) |
| Principal repaid | 7,470 | 13,049 |
| District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities. | | |
| District pension contributions | 766,736 | 766,746 |
| Pension expense | (327,283) | (324,047) |
| Governmental funds do not report the net change in obligation for other postemployment benefits. | <u>(371,757)</u> | <u>(374,878)</u> |
| Increase in net position (statement of activities) | <u>\$ 2,184,779</u> | <u>2,701,706</u> |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2016

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|-----------------------|--------------------|-------------------|--|
| Revenues | | | | |
| Ad valorem assessments | \$ 13,873,661 | 13,873,661 | 15,289,951 | 1,416,290 |
| Water service assessments | 1,753,624 | 1,753,624 | 1,828,874 | 75,250 |
| Delinquency charges | 172,500 | 172,500 | 268,935 | 96,435 |
| Investment income | 30,000 | 30,000 | 41,777 | 11,777 |
| Contracts with governmental entities | 1,112,287 | 1,112,287 | 1,080,916 | (31,371) |
| Operating and capital grants | 1,500,000 | 1,500,000 | 1,584,823 | 84,823 |
| Other | 307,050 | 307,050 | 372,632 | 65,582 |
| Total revenues | 18,749,122 | 18,749,122 | 20,467,908 | 1,718,786 |
| Expenditures | | | | |
| Current Operations | | | | |
| Personnel services | 8,953,490 | 8,953,490 | 8,343,890 | 609,600 |
| Employee benefits | 4,107,067 | 4,108,099 | 3,743,804 | 364,295 |
| Contractual operating and maintenance services | 684,876 | 686,911 | 726,774 | (39,863) |
| Field expenses | 4,138,005 | 4,313,047 | 3,312,978 | 1,000,069 |
| General and administration expense | 2,958,138 | 2,462,989 | 2,372,511 | 90,478 |
| Capital outlays | 585,915 | 902,612 | 834,304 | 68,308 |
| Special projects | - | 343 | 7,813 | (7,470) |
| Total expenditures | 21,427,491 | 21,427,491 | 19,342,074 | 2,085,417 |
| (Deficiency) excess of revenues over expenditures | (2,678,369) | (2,678,369) | 1,125,834 | 3,804,203 |
| Other Financing Sources (Uses) | | | | |
| Equipment disposition proceeds | - | - | 7,530 | 7,530 |
| Total other financing sources (uses) | - | - | 7,530 | 7,530 |
| (Deficiency) excess of revenues over expenditures and other sources (uses) | \$ (2,678,369) | (2,678,369) | 1,133,364 | 3,811,733 |
| Prior year fund balance budget basis | \$ 2,678,369 | 2,678,369 | | |
| (Decrease) increase in fund balance - non-GAAP budgetary basis | | | \$ 1,133,364 | |
| Change in: | | | | |
| Ad valorem receivables | | | (40,172) | |
| Water service receivables | | | 38,279 | |
| Other receivables | | | 20,000 | |
| Unavailable revenue | | | (366,062) | |
| Encumbrances | | | (86,008) | |
| Damage claim adjustment | | | (10,000) | |
| Other | | | 474 | |
| Increase (decrease) in fund balance - GAAP basis | | | <u>\$ 689,875</u> | |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|-----------------------|--------------------|-----------------------|--|
| Revenues | | | | |
| Ad valorem assessments | \$ 12,791,507 | 12,791,507 | 14,160,780 | 1,369,273 |
| Water service assessments | 1,755,654 | 1,755,654 | 1,652,999 | (102,655) |
| Delinquency charges | 172,500 | 172,500 | 266,131 | 93,631 |
| Investment income | 30,000 | 30,000 | 30,736 | 736 |
| Contracts with governmental entities | 756,476 | 756,476 | 1,142,812 | 386,336 |
| Operating and capital grants | 4,278,986 | 4,278,986 | 3,173,824 | (1,105,162) |
| Other | 299,500 | 299,500 | 346,216 | 46,716 |
| Total revenues | 20,084,623 | 20,084,623 | 20,773,498 | 688,875 |
| Expenditures | | | | |
| Current Operations | | | | |
| Personnel services | 8,786,684 | 8,786,684 | 8,241,188 | 545,496 |
| Employee benefits | 3,865,512 | 3,865,512 | 3,702,068 | 163,444 |
| Contractual operating and maintenance services | 654,477 | 654,477 | 654,473 | 4 |
| Field expenses | 8,029,158 | 8,029,158 | 2,027,748 | 6,001,410 |
| General and administration expense | 3,141,108 | 3,141,108 | 1,707,350 | 1,433,758 |
| Capital outlays | 1,324,450 | 1,324,450 | 5,405,142 | (4,080,692) |
| Total expenditures | 25,801,389 | 25,801,389 | 21,737,969 | 4,063,420 |
| (Deficiency) excess of revenues over expenditures | (5,716,766) | (5,716,766) | (964,471) | 4,752,295 |
| Other Financing Sources (Uses) | | | | |
| Equipment disposition proceeds | - | - | 152,237 | 152,237 |
| Loan proceeds | - | - | 150,396 | 150,396 |
| Total other financing sources (uses) | - | - | 302,633 | 302,633 |
| (Deficiency) excess of revenues over expenditures and other sources (uses) | \$ (5,716,766) | (5,716,766) | (661,838) | 5,054,928 |
| Prior year fund balance budget basis | \$ 5,716,766 | 5,716,766 | | |
| (Decrease) increase in fund balance - non-GAAP budgetary basis | | | \$ (661,838) | |
| Change in: | | | | |
| Encumbrances | | | (753,297) | |
| Loan Proceeds | | | 150,396 | |
| ULD | | | 4,169 | |
| (Decrease) increase in fund balance - GAAP basis | | | <u>\$ (1,260,570)</u> | |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1. ORGANIZATION

The Middle Rio Grande Conservancy District ("District") was created in 1923 under the provisions of the Conservancy Act of New Mexico for the purpose of maintaining flood protection, river control, drainage, and water storage for supplementing irrigation needs, constructing and maintaining a distribution system for irrigation and other improvements for public health, safety, convenience and welfare. The District is a political subdivision of the State of New Mexico and a body corporate with all the powers of a public or municipal corporation and operated under an elected Board of Directors.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The accompanying financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). These statements include:

- Presentation of management's discussion and analysis ("MD&A") which provides an analysis of the District's overall financial position and results of operations.
- Presentation of financial statements prepared using full accrual accounting for all District activities including reporting capital assets and related depreciation.

Other significant accounting policies of the District are discussed below.

Reporting Entity

The District's basic financial statements include the accounts of all District operations which are financially accountable to the Board of Directors. The District has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information based on the District as a whole. Interfund activity is eliminated in the government-wide financial statements.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

The statement of net position incorporates long-term assets and receivables and deferred outflows of resources, as well as long-term debt and obligations, and deferred inflows of resources. The District's net position is reported in three parts - invested in capital assets net of related debt and deferred inflows of resources, if any; restricted net position (none at June 30, 2016 or 2015); and unrestricted net position.

The statement of activities indicates the degree to which the direct expenses of a given function are offset by program revenues. Gross expenses (including depreciation) are reduced by program revenues directly associated with the functions. Program revenues include: (1) water service assessments to property owners who have irrigation access, (2) contract revenue from governmental entities to finance operation and maintenance of District infrastructure, (3) operating and capital grants, if any, which finance specific operating and construction activities, (4) other revenue with a program nature.

The net cost (by function) is normally covered by general revenues (ad valorem assessments, delinquency charges, investment income, and other gains and losses). The District does not currently employ indirect cost allocation systems.

Separate fund financial statements provide reports on the financial condition and results of operations for major individual funds. The District's activities are all governmental activities and the District did not have proprietary or fiduciary funds during the years ended June 30, 2016 or 2015. There are no non-major funds.

The fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed appropriate to (1) demonstrate legal compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the District's actual experience conforms to the budget plan. Since the fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliations are presented which briefly explain the differences between the fund financial statements and the government-wide financial statements.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Fund Accounting

The financial activities of the District are recorded in individual funds, each of which is considered to be a separate accounting entity with a self-balancing set of accounts. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Activities between the funds that are representative of lending/borrowing arrangements outstanding at the end of the year that are expected to be paid back within the year are included in inter-fund receivable/payable in the accompanying balance sheet. The District's financial activities have been classified into the following governmental funds:

- General Fund — This fund is the operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund.
- Special Revenue Fund — This fund accounts for the receipt of monies from the sale of District land and the proceeds of District water bank leases. Withdrawals are limited to the direct expenses associated with the sale of land. Effective January 29, 2013, the Board of Directors directed that proceeds of water bank leases, which had previously been accounted for in the Special Revenue Fund, be accounted for in the General Fund. Authority is board resolution.

Basis of Accounting

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

The fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Ad valorem assessments, water service assessments, grant revenue, and contract revenue are considered available if they are collected within thirty days of the current fiscal year end. Investment income is considered available when earned. Delinquency charges and other revenue are generally considered measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' annual leave is recorded when paid.
- Debt payments are recorded when paid.
- Other post-employment benefits are recorded when paid.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Cash and Cash Equivalents

Cash and cash equivalents consist of bank accounts.

The District is authorized to deposit its money in banks, savings and loan associations or credit unions whose accounts are insured by an agency of the United States Government. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year.

The District is authorized to invest its money in contracts with banks, savings and loan associations or credit unions for the purchase and resale of specific securities (repurchase agreements). Money invested in repurchase agreements is required to be fully secured by obligations of the United States or other securities backed by the United States having a market value of at least 102% of the repurchase contract.

Custodial credit risk is the risk that in the event of bank failure the District's deposit may not be returned. Deposits are exposed to custodial risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized by securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the District's name.

At June 30, 2016, the carrying amount of the District's cash deposits was \$3,538,813 and the bank balance on these accounts was \$3,642,295. Funds in the amount of \$3,142,295 as of June 30, 2016 were exposed to custodial risk due to being uninsured and were collateralized with securities held by the banks' trust departments not in the District's name.

At June 30, 2015, the carrying amount of the District's cash deposits was \$2,433,843 and the bank balance on these accounts was \$2,761,380. Funds in the amount of \$2,261,380 as of June 30, 2015 were exposed to custodial risk due to being uninsured and were collateralized with securities held by the banks' trust departments not in the District's name.

C. Investments

The District's investment policy does not formally address investment interest rate and credit risks.

The District's investment in the Local Government Investment Pool at June 30, 2016 and 2015 consists of two accounts in the New Mexico State Treasurer's Local Government Investment Pool ("Pool"). Participation in the Pool is voluntary. Investments totaling \$16,032,837 and \$16,016,859 are stated at fair value based on quoted market value as of June 30, 2016 and 2015, respectively.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Investments (Continued)

The Pool was established in 1991 as a short-term investment and is not registered with the SEC. The State Treasurer, with advice and consent of the State Board of Finance is authorized to invest the short-term investment funds in accordance with sections 6-10-10 I through P and sections 6-10-10.1 A and E, NMSA 1978. The Pool does not have unit shares. Per Section 6-10-10.IF, NMSA 1978, at the end of each month all interest earned by the Pool is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the Pool and the length of time the amounts in the Pool were invested.

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment in the Pool is subject to credit risk. The Pool is rated AAAM by Standard and Poor's as of June 30, 2016 and 2015.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The prices of securities fluctuate with market interest rates and securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity ("WAM") is the key determinant of the tolerance of the investments to rising interest rates. In general, the longer the WAM, the more susceptible the investments are to rising interest rates. At June 30, 2016, the Pool's WAM (R) was 44 days and the WAM (F) was 77 days. At June 30, 2015, the Pool's WAM (R) was 55 days and the WAM (F) was 78 days.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2016 and 2015, the Pool has no foreign currency risk, as all investments in the Pool are in United States dollar-denominated assets.

The District records the interest earned by the special revenue fund's investment in the Pool in the general fund. This amounted to \$20,273 and 11,738 during the years ended June 30, 2016 and 2015, respectively. The total interest earned in the Pool was \$41,777 and \$24,212 for the years ended June 30, 2016 and 2015, respectively.

D. Inventories and Prepaids

Inventories consist of expendable supplies and repair parts. Inventories are valued on an average cost basis. The cost of supplies and repair parts is recorded as an expense/expenditure when the items are used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets

Capital assets, which include property, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the District as assets which have a cost of \$5,000 or more at the date of acquisition. Infrastructure is defined by the District as long-lived capital assets that are normally stationary in nature such as dams, canals, laterals, acequias, waste ways, levees, and riverside and interior drains having a cost of \$100,000 or more and a useful life of 50 years or more.

Capital assets purchased, constructed or acquired are carried at historical cost or estimated historical cost. The District capitalizes purchased software and has no internally developed software. Donated capital assets are recorded at the fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs are expensed as incurred.

The majority of the District's infrastructure was constructed or acquired prior to July 1, 1980, and has not been valued. Infrastructure which was built and improved since July 1, 2002 has been capitalized. The District has determined that no infrastructure which meets the District's infrastructure asset policy was purchased, constructed or acquired from July 1, 1980 to July 1, 2002. In addition, the majority of the District's intangible assets, consisting primarily of water rights, was acquired prior to July 1, 1980, and has not been valued.

The District's capital assets include land associated with infrastructure assets. The land underneath and around all major facilities has been recorded at estimated historical cost. The District has been granted easements for right-of-way associated with some of their waterways, which have been recorded as land and at estimated historical costs.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The District estimates the useful lives of capital assets as follows:

| | |
|---------------------------------|------------|
| Buildings and improvements | 50 years |
| Office furniture and equipment | 5-10 years |
| Computer software | 7 years |
| Engineering equipment | 10 years |
| Communication equipment | 10 years |
| Motor vehicles and trailers | 6-10 years |
| Weed and pest control equipment | 5-10 years |
| Heavy field equipment | 15 years |
| Shop and field equipment | 10 years |
| Infrastructure equipment | 20 years |
| Infrastructure | 50 years |

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Employee Benefits

Compensated Absences

Qualified employees are entitled to accumulate annual leave which is payable to the employee upon termination or retirement. Employees earn annual leave at the rate of twelve days per year for the first five years of service, eighteen days per year for service of five to twenty years, and twenty four days per year for over twenty years of service. The maximum accrual of annual leave is 240 hours unless approved by the District's Chief Engineer. At June 30, 2016 and 2015, accrued vested annual leave totaled \$628,698 and \$676,729, respectively.

Qualified employees are entitled to accumulate sick leave, which may be converted upon retirement or termination to annual leave. Employees earn sick leave at the rate of twelve days per year. Employees who have twenty years of service and who are eligible for the Public Employee's Retirement Act benefits may convert sick leave to annual leave at the rate of three for two. Otherwise, sick leave hours in excess of 250 hours may be converted to annual leave hours at the rate of three for one. Sick leave hours in excess of 500 hours may be converted to annual leave hours at the rate of two for one. Sick leave hours in excess of 800 hours may be converted to annual leave hours at the rate of three for two. At June 30, 2016 and 2015, accrued vested sick leave totaled \$284,750 and \$346,217, respectively.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2016 and, accrued vested compensatory leave totaled \$27,867 and \$32,667, respectively. Qualified employees are granted one personal holiday and several legal holidays as set by the Board for every calendar year. At June 30, 2016 and 2015, accrued vested holiday leave totaled \$26,991 and \$29,123, respectively.

The government-wide financial statements present the cost of accumulated annual leave, sick leave, compensatory time, and holiday leave as a liability, valued at the current rate of pay.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits

As further described in Note 10 to the financial statements, the District provides postemployment benefits ("OPEB") to qualifying employees upon their retirement.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Employee Benefits (Continued)

Deferred Compensation Plan

Employees may elect to participate in a noncontributory deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan is available to all employees, who may defer up to 25% of gross compensation, subject to Internal Revenue Code limits. The employees make contributions to the plan through payroll withholdings. All contributions withheld from participants by the District are paid to a third party who administers the plan.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports pension contributions made subsequent to the measurement date in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows related to pensions in this category.

H. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss, including workers' compensation insurance. Settled claims, excluding insurance deductibles, resulting from these risks have not exceeded commercial insurance coverage during the years ended June 30, 2016 through 2011.

I. Fund Balances

The District reports fund balances in the following categories:

- Non-spendable — amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted — amounts that are restricted to specific purposes either externally imposed by creditors, grantors or laws or regulations or imposed by law through constitutional provisions or enabling legislation.
- Committed — amounts that can only be used for specific purposes pursuant to formal action of the government's highest decision making authority.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fund Balances (Continued)

- Assigned — amounts that are intended to be used for specific purposes, but are neither restricted nor committed.
- Unassigned — remaining general funds balances not restricted, committed, or assigned.

The District's Board of Directors is its highest level of decision-making authority. In order to establish committed fund balances, the Board would be required to take formal action, such as passing a Board resolution. Management of the District is authorized to designate fund balances that the District intends to use for specific purposes.

The general fund assigned fund balance includes the amount necessary to balance the budget for the subsequent fiscal year, and in accordance with state budget guidance an amount equal to 1/12 of budgeted expenditures for the subsequent fiscal year, and the amount of encumbered funds pertaining to the budget for the respective fiscal year. The special revenue assigned fund balance includes accumulated amounts from prior year collections on District water bank leases.

The District through Board Resolution has earmarked funds received from the sale of excess District land to form an endowment for the District. These amounts are reported as committed.

The fund balance classifications of the governmental funds as of June 30, 2016, were as follows:

| | General Fund | Special Revenue Fund |
|-----------------------------|----------------------|----------------------------|
| Fund balances: | | |
| Nonspendable: | | |
| Inventories | \$ 853,592 | - |
| Prepaid items | 10,256 | - |
| Total nonspendable | <u>863,848</u> | <u>-</u> |
| Committed to: | | |
| Endowment | - | <u>7,219,615</u> |
| Assigned to: | | |
| Balance 2017 budget | 330,573 | - |
| 1/12 of 2017 budget | 1,675,377 | - |
| 2016 encumbered funds | 223,782 | - |
| Water bank fund and reserve | - | 603,853 |
| Total assigned | <u>2,229,732</u> | <u>603,853</u> |
| Unassigned | <u>9,262,593</u> | - |
| Total fund balances | <u>\$ 12,356,173</u> | <u>7,823,468</u> |

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fund Balances (Continued)

The fund balance classifications of the governmental funds as of June 30, 2015, were as follows:

| | General Fund | Special Revenue Fund |
|-----------------------------|----------------------|----------------------------|
| Fund balances: | | |
| Nonspendable: | | |
| Inventories | \$ 918,248 | - |
| Committed to: | | |
| Endowment | - | 7,192,973 |
| Assigned to: | | |
| Balance 2016 budget | 2,678,369 | - |
| 1/12 of 2016 budget | 1,785,624 | - |
| 2015 encumbered funds | 309,790 | - |
| Water bank fund and reserve | - | 603,610 |
| Total assigned | <u>4,773,783</u> | <u>603,853</u> |
| Unassigned | <u>6,001,152</u> | - |
| Total fund balances | <u>\$ 11,693,183</u> | <u>7,796,583</u> |

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Trustees have provided otherwise in its commitment or assignment actions.

J. Net Position

The governmental activities in the government-wide financial statements utilize a net position presentation which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is displayed in three components as follows:

Invested in capital assets, net of related debt: Consists of capital assets including restricted capital assets, 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.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Net Position (Continued)

Restricted net position: Reflects the component of net position that have 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 are restricted for “debt service or capital projects.”

Unrestricted net position: Reflects the component of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

K. Budgets and Budgetary Accounting

The District follows defined procedures in establishing the budgetary data reflected in the budgetary comparison schedule. Each year the District determines amounts required for maintenance and operation expenditures. Based on that determination, the mill rate (for ad valorem assessments) and per acre rate (for water service assessments) are determined to bring expected revenues up to expected expenditures. The District submits a proposed budget for the general fund to its Board of Directors and to the Local Government Division of the State of New Mexico Department of Finance and Administration (“DFA”) for the fiscal year commencing the following July 1. DFA must approve the budget prior to its legal enactment. The District does not prepare a budget for the special revenue fund due to lack of activity.

Expenditures of the general fund may not legally exceed the budget. Adjustments to the budget must be submitted to and approved by DFA in the form of a “budget adjustment request”. The budget is prepared on a basis which differs from GAAP. The budget includes encumbrances as expenditures. Since the budgetary basis differs from GAAP, budget and actual amounts in the accompanying budgetary comparison schedule are presented on the budgetary basis.

All budget appropriations, except for those amounts encumbered, lapse at year end.

L. Use of Estimates

The preparation of the District's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and of revenues and expenditures during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Implementation of New Accounting Standards

During the year ended June 30, 2016, the District adopted the following Governmental Accounting Standards Board Statement (GASBS):

GASBS No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Effective for periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The statement did not have an impact on the District’s financial statements.

GASBS No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. Effective for reporting periods beginning after June 15, 2016, with earlier implementation encouraged. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

As a result of implementing GASBS No. 82 *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, the District has restated beginning net position, deferred outflows and employee benefit expense in the government-wide Statement of Net Position and Statement of Activities for the year ended June 30, 2015. GASBS No. 82 requires a restatement of employer “pickup” contributions that are now considered employee contributions for purposes of calculations of the employer allocation percentage in GASBS No. 68 entries.

Prior period adjustment - Implementation of GASBS No. 82:

June 30, 2015 beginning net position was impacted as follows:

| | |
|---|----------------------|
| Net position, beginning of year as originally reported | \$ 31,212,050 |
| Less: Employer “pickups” made in 2014 which were originally recorded as deferred outflows, but are required to be reported as expenditures under GASBS No. 82 | <u>(780,725)</u> |
| Net position, beginning of year as restated | <u>\$ 30,431,325</u> |

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Implementation of New Accounting Standards (Continued)

June 30, 2015 Statement of Net Position was impacted as follows:

| | Originally Reported | As Restated | Change |
|--|--------------------------------|------------------------|---------------|
| Deferred outflows of resources – Employer contributions subsequent to measurement date | 1,557,950 | 766,746 | (791,204) |
| Unrestricted net position | 9,867,638 | 9,076,434 | (791,204) |

Change is the result of employer “pickups” made in 2015 which were originally recorded as deferred outflows, but are required to be reported as expenditures under GASBS No. 82

June 30, 2015 Statement of Activities was impacted as follows:

| | Originally Reported | As Restated | Change |
|--------------------------------------|--------------------------------|------------------------|---------------|
| Program expenses – employee benefits | 3,623,768 | 3,634,247 | (10,479) |
| Increase in net position | 2,712,185 | 2,701,706 | (10,479) |

Change is the difference between 2014 employer “pickup” contributions of \$780,725 and 2015 employer “pickup” contributions of \$791,204. Prior to the implementation of GASBS No. 82, employer “pickup” contributions made in 2014 were deferred in 2014 and recorded as expense in 2015. Likewise employer “pickup” contributions made in 2015 were deferred in 2015. The implementation results in 2014 employer “pickups” being reversed from 2015 expense and 2015 “pickups” expensed instead of reported as deferred.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Implementation of New Accounting Standards (Continued)

Subsequent accounting standards that the District is currently reviewing for applicability and potential impact on the financial statements include:

GASBS No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. 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 will be effective for the year ended June 30, 2018. The statement is not anticipated to have a material impact on the financial statements.

N. Subsequent Events

Management has evaluated subsequent events through December 2, 2016, the date which the financial statements were available to be issued.

NOTE 3. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

For the year ended June 30, 2016 and 2015, general fund budgeted expenditures exceeded budgeted revenues by \$2,678,369 and \$5,716,766, respectively. Prior year cash and investment balances for the general fund were used to complete the budget process. Actual expenditures did not exceed budgeted expenditures and the District did not report any deficit fund balances or net position at June 30, 2016 or 2015.

NOTE 4. CONTRACT RECEIVABLE

In 2007, the District entered into agreements with the United States Department of the Army ("government") to partially fund District design and construction of improvements to the Albuquerque west levee. The District's total cost of the project amounted to \$6,463,173 and is included in infrastructure in the accompanying statement of net position. The government's funding commitment (\$4,373,783) was recorded as a receivable from the government to be paid with federal funds pursuant to Section 593 of the Water Resources Development Act of 1999, Public Law 106-53, as amended. Reimbursement of the full amount of the receivable is contingent upon Congressional approval of an extension of the ceiling for Section 593 funds. Presently, the section 593 federal Program is awaiting an increase in Program Authority.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 4. CONTRACT RECEIVABLE (CONTINUED)

In December 2009, the District received \$1,700,000. During the year ended June 30, 2013, the District received reimbursement from the government in the amount of \$49,999. The receivable due from the government at June 30, 2016 and 2015 amounts to \$2,623,784, and is reported in the accompanying statements of net position and balance sheets as a contract receivable due after one year. The District expects that the remaining funds will be authorized and appropriated by the federal government over a number of budget years subsequent to June 30, 2016, allowing for collection of this receivable. In the interim, the District is seeking to recognize these funds through in-kind matching on future projects.

In 2007, the District also entered into an agreement with the Albuquerque Metropolitan Arroyo Flood Control Authority ("AMAFCA") and the County of Bernalillo ("County"), whereby AMAFCA and County each provided \$1 million of the above project cost. The agreement states at such time as the District is reimbursed by the government for the federal share of the project cost, AMAFCA and County will receive a pro rata share of the reimbursement. As of June 30, 2016 and 2015, a combined payable to AMAFCA and County in the amount of \$811,770, due after one year, is included in the accompanying statements of net position and balance sheets. It represents AMAFCA and County's share of the contract receivable from the government described above.

NOTE 5. WATER SERVICE AND AD VALOREM ASSESSMENTS

Water service assessments and ad valorem assessments are levied each calendar year, on November 1, based on serviceable, irrigable acreage, as determined by the District, and taxable property valuations as determined by the four county assessors within the District boundaries, respectively. Water service and ad valorem assessments are due in two equal installments on December 1 and May 1 following the levy, after which they become delinquent. At June 30, 2016 and 2015, all receivables for water service and ad valorem assessments are delinquent. It has been the District's experience that a significant portion of the receivables for water service and ad valorem assessments may not be collected within one year. Lien rights are available to the District on all delinquent water service and ad valorem assessments. The District computes allowances on water service and delinquency charges receivable and ad valorem assessments receivable based on management's determination of balances it believes will be uncollectible.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 5. WATER SERVICE AND AD VALOREM ASSESSMENTS (CONTINUED)

In the government-wide financial statements, water service and ad valorem assessments are recorded as a receivable and revenue when billed to taxpayers. In the fund financial statements, water service assessments collected by the District and ad valorem assessments remitted by the county assessors to the District within thirty days following year end are recorded as revenue; all water service and ad valorem assessments not collected or remitted within thirty days following year end are reported as deferred inflows of resources. For the year ending June 30, 2016, water service assessments were assessed and levied at a uniform rate per acre of \$31 based on acreage approximating 53,469. Ad valorem assessments for the year ending June 30, 2016 were assessed and levied at a rate of \$4.38 per \$1,000 of valuation of residential property and \$5.47 per \$1,000 valuation of nonresidential property based on valuations determined by the county assessors. For the year ending June 30, 2015, water service assessments were assessed and levied at a uniform rate per acre of \$28 based on acreage approximating 53,800. Ad valorem assessments for the year ending June 30, 2015 were assessed and levied at a rate of \$4.17 per \$1,000 of valuation of residential property and \$5.21 per \$1,000 valuation of nonresidential property based on valuations determined by the county assessors. Valuations for current and prior years are continually being modified pursuant to present laws, rules and regulations.

NOTE 6. REVENUE NOT AVAILABLE TO PAY CURRENT PERIOD EXPENDITURES

Revenue not available to pay current period expenditures as reported in the balance sheets consist of the following at June 30:

| | 2016 | 2015 |
|---------------------------------------|---------------------|------------------|
| Ad valorem assessments | \$ 1,534,391 | 1,569,896 |
| Water service and delinquency charges | 312,421 | 268,511 |
| Governmental contracts – | | |
| Federal | 2,112,666 | 2,032,666 |
| Local | 226,008 | - |
| | <u>\$ 4,185,486</u> | <u>3,871,073</u> |

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

| | Balance June 30, 2015 | Increases | Decreases | Transfers | Balance June 30, 2016 |
|------------------------------------|--------------------------|-----------|-----------|-----------|--------------------------|
| Capital Assets | | | | | |
| Nondeprecating: | | | | | |
| Land | \$ 457,134 | - | 40 | - | 457,094 |
| Construction in progress | 4,181,753 | 1,500,000 | - | - | 5,681,753 |
| Depreciating: | | | | | |
| Buildings and improvements | 3,118,455 | 248,378 | - | - | 3,366,833 |
| Office furniture and equipment | 477,679 | - | - | - | 477,679 |
| Computer software | 389,560 | 20,546 | - | - | 410,106 |
| Engineering equipment | 158,239 | - | - | - | 158,239 |
| Communication equipment | 10,795 | - | - | - | 10,795 |
| Motor vehicles and trailers | 6,428,198 | 101,750 | 57,712 | - | 6,472,236 |
| Weed and pest control equipment | 338,068 | - | 1,946 | 32,818 | 368,940 |
| Heavy field equipment | 10,470,091 | 350,540 | - | (32,818) | 10,787,813 |
| Shop and field equipment | 218,256 | - | 4,100 | - | 214,156 |
| Infrastructure | 14,819,960 | 191,208 | - | - | 15,011,168 |
| Total capital assets | 41,068,188 | 2,412,422 | 63,798 | - | 43,416,812 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 1,521,353 | 78,366 | - | - | 1,599,719 |
| Office furniture and equipment | 413,002 | 27,548 | - | - | 440,550 |
| Computer software | 238,152 | 51,249 | - | - | 289,401 |
| Engineering equipment | 137,398 | 3,185 | - | - | 140,583 |
| Communication equipment | 10,795 | - | - | - | 10,795 |
| Motor vehicles and trailers | 5,526,798 | 282,381 | 57,712 | - | 5,751,467 |
| Weed and pest control equipment | 307,325 | 14,447 | 1,946 | 21,331 | 341,157 |
| Heavy field equipment | 5,735,938 | 546,820 | - | (21,331) | 6,261,427 |
| Shop and field equipment | 166,915 | 7,584 | 4,100 | - | 170,399 |
| Infrastructure | 2,816,568 | 411,907 | - | - | 3,228,475 |
| Total accumulated depreciation | 16,874,244 | 1,423,487 | 63,758 | - | 18,233,973 |
| Capital assets, net | \$ 24,193,944 | 988,935 | (40) | - | 25,182,839 |

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 7. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2015 is as follows:

| | Balance June 30, 2014 | Increases | Decreases | Transfers | Balance June 30, 2015 |
|------------------------------------|--------------------------|------------------|----------------|-----------|--------------------------|
| Capital Assets | | | | | |
| Nondeprecating: | | | | | |
| Land | \$ 457,145 | - | 11 | - | 457,134 |
| Construction in progress | 202,785 | 3,978,968 | - | - | 4,181,753 |
| Depreciating: | | | | | |
| Buildings and improvements | 3,110,624 | 7,831 | - | - | 3,118,455 |
| Office furniture and equipment | 462,685 | 14,994 | - | - | 477,679 |
| Computer software | 389,560 | - | - | - | 389,560 |
| Engineering equipment | 158,239 | - | - | - | 158,239 |
| Communication equipment | 10,795 | - | - | - | 10,795 |
| Motor vehicles and trailers | 6,355,631 | 295,773 | 223,206 | - | 6,428,198 |
| Weed and pest control equipment | 359,033 | - | 20,965 | - | 338,068 |
| Heavy field equipment | 9,927,703 | 914,903 | 372,515 | - | 10,470,091 |
| Shop and field equipment | 216,771 | 9,035 | 7,550 | - | 218,256 |
| Infrastructure | 14,294,930 | 525,030 | - | - | 14,819,960 |
| Total capital assets | 35,945,901 | 5,746,534 | 624,247 | - | 41,068,188 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 1,444,537 | 76,816 | - | - | 1,521,353 |
| Office furniture and equipment | 381,963 | 31,039 | - | - | 413,002 |
| Computer software | 184,246 | 53,906 | - | - | 238,152 |
| Engineering equipment | 134,213 | 3,185 | - | - | 137,398 |
| Communication equipment | 10,722 | 73 | - | - | 10,795 |
| Motor vehicles and trailers | 5,440,746 | 309,257 | 223,205 | - | 5,526,798 |
| Weed and pest control equipment | 310,673 | 17,617 | 20,965 | - | 307,325 |
| Heavy field equipment | 5,560,500 | 547,387 | 371,949 | - | 5,735,938 |
| Shop and field equipment | 165,058 | 9,407 | 7,550 | - | 166,915 |
| Infrastructure | 2,407,571 | 408,997 | - | - | 2,816,568 |
| Total accumulated depreciation | 16,040,229 | 1,457,684 | 623,669 | - | 16,874,244 |
| Capital assets, net | \$ 19,905,672 | 4,288,850 | 578 | - | 24,193,944 |

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8. LONG-TERM LIABILITIES

A. Long-Term Debt

During the fiscal year ended June 30, 2014, the District received approval for a loan from the New Mexico Finance Authority in the amount of \$150,396 bearing interest at a rate of 0.25% for the completion of the first phase of the United States Army Corps of Engineers San Acacia to Bosque del Apache Unit Levee project. Net revenues from the general operations of the District will be pledged in repayment of this loan. The following are changes during the year ended June 30, 2016 related to this loan:

| | Balance June 30, 2015 | Additions | Deletions | Balance June 30, 2016 | Due Within One Year |
|--------------|--------------------------|-----------|-----------|--------------------------|------------------------|
| Note Payable | \$ 137,347 | - | 7,470 | 129,877 | 7,488 |

The following are changes during the year ended June 30, 2015 related to this loan:

| | Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 | Due Within One Year |
|--------------|--------------------------|-----------|-----------|--------------------------|------------------------|
| Note Payable | \$ - | 150,396 | 13,049 | 137,347 | 7,470 |

Debt service requirements for the note are as follows:

| | Principal | Interest | Total |
|-----------|-------------------|--------------|----------------|
| 2017 | \$ 7,488 | 325 | 7,813 |
| 2018 | 7,507 | 306 | 7,813 |
| 2019 | 7,526 | 287 | 7,813 |
| 2020 | 7,545 | 268 | 7,813 |
| 2021 | 7,563 | 250 | 7,813 |
| 2022-2026 | 38,100 | 963 | 39,063 |
| 2027-2031 | 38,581 | 484 | 39,065 |
| 2032-2033 | 15,567 | 58 | 15,625 |
| Totals | <u>\$ 129,877</u> | <u>2,941</u> | <u>132,818</u> |

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 8. LONG-TERM LIABILITIES (CONTINUED)

B. Accrued Compensated Absences

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2016:

| | Balance June 30, 2015 | Increases | Decreases | Balance June 30, 2016 |
|------------------------------|--------------------------|----------------|----------------|--------------------------|
| Compensated absences payable | | | | |
| Payable within one year | \$ 600,183 | 529,084 | 627,302 | 501,965 |
| Payable after one year | 484,553 | 59,472 | 77,684 | 466,341 |
| | <u>\$ 1,084,736</u> | <u>588,556</u> | <u>704,986</u> | <u>968,306</u> |

The following is a summary of changes in accrued compensated absences for the year ended June 30, 2015:

| | Balance June 30, 2014 | Increases | Decreases | Balance June 30, 2015 |
|------------------------------|--------------------------|------------------|------------------|--------------------------|
| Compensated absences payable | | | | |
| Payable within one year | \$ 682,058 | 1,034,950 | 1,116,825 | 600,183 |
| Payable after one year | 529,028 | 405,134 | 449,609 | 484,553 |
| | <u>\$ 1,211,086</u> | <u>1,440,084</u> | <u>1,566,434</u> | <u>1,084,736</u> |

The general fund has been used to liquidate obligations for accrued compensated absences.

NOTE 9. RETIREMENT PLAN

Plan description. Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article I NMSA 1978). The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9. RETIREMENT PLAN (CONTINUED)

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/CAFR-2015.pdf>.

Benefits provided. For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal years ended June 30, 2015 and 2014 available at <http://saonm.org/> using the Audit Report Search function for agency 366.

Contributions. The contribution requirements of defined benefit plan members and the District are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect as of July 1, 2014 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on page 4 of the PERA FY15 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association.pdf. The PERA coverage option that applies to the District is the Municipal General Division. Statutorily required contributions to the pension plan from the District were \$766,736 and \$766,746, and employer paid member benefits that were “picked up” by the employer were \$799,900 and \$791,204 for the years ended June 30, 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2016, the PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2015. For the year ended June 30, 2015, the PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2014.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred inflows and outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 9. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2016, the District's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 are included in the total contribution amounts.

For the year ended June 30, 2015, the District's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2014. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2014 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2014 are included in the total contribution amounts.

In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For the Municipal General Division, at June 30, 2016 and 2015, the District reported a liability of \$9,829,835 and \$7,606,046 for its proportionate share of the net pension liability, respectively. At the June 30, 2015 measurement date, the District's proportion was 0.9641% which was a decrease of 0.0109% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized Municipal General Division pension expense of \$327,283. At June 30, 2016, the District reported Municipal General Division deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ - | 217,735 |
| Net difference between projected and actual investment earnings on pension plan investments | | 31,095 |
| Changes of assumptions | - | 3,829 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 64,930 |
| District contributions subsequent to the measurement date | <u>766,736</u> | - |
| Total | <u>\$ 766,736</u> | <u>317,589</u> |

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 9. RETIREMENT PLAN (CONTINUED)

\$766,736 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|---------------------|-------------------|
| 2017 | \$ (275,703) |
| 2018 | (275,703) |
| 2019 | (275,703) |
| 2020 | 513,050 |
| 2021 | <u>(3,530)</u> |
| Total | <u>\$ 317,589</u> |

For the year ended June 30, 2015, the District recognized Municipal General Division pension expense of \$324,047 (as restated). At June 30, 2015, the District reported Municipal General Division deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Net difference between projected and actual investment earnings on pension plan investments | - | 2,975,686 |
| Changes of assumptions | - | 5,155 |
| District contributions subsequent to the measurement date (as restated) | <u>766,746</u> | - |
| Total | <u>\$ 766,746</u> | <u>2,980,841</u> |

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2014 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 9. RETIREMENT PLAN (CONTINUED)

| | |
|------------------------------|--|
| Actuarial valuation date | June 30, 2014 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of pay, open |
| Amortization period | Solved for based on statutory rates |
| Asset valuation method | Fair value |
| Actuarial assumptions: | |
| • Investment rate of return | 7.75% annual rate, net of investment expense |
| • Projected benefit payment | 100 years |
| • Payroll growth | 3.50% annual rate |
| • Projected salary increases | 3.50% to 14.25% annual rate |
| • Includes inflation at | 3.00% annual rate |
| • Mortality assumption | RP-2000 Mortality Tables (Combined table for healthy post-retirements, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA |
| • Experience study dates | July 1, 2008 to June 30, 2013 |

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| ALL FUNDS - Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------------------|--------------------------|---|
| US Equity | 21.1% | 5.00% |
| International Equity | 24.8 | 5.20 |
| Private Equity | 7.0 | 8.20 |
| Core and Global Fixed Income | 26.1 | 1.85 |
| Fixed Income Plus Sectors | 5.0 | 4.80 |
| Real Estate | 5.0 | 5.30 |
| Real Assets | 7.0 | 5.70 |
| Absolute Return | 4.0 | 4.15 |
| Total | <u>100.0%</u> | |

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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June 30, 2016 and 2015

NOTE 9. RETIREMENT PLAN (CONTINUED)

Discount rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan’s fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the District’s net pension liability in each PERA Fund Division that the District participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|--------------------------------|--|--------------------------------|
| Municipal General Division: | | | |
| For the year ended June 30, 2016: | | | |
| District’s proportionate share of the net pension liability | \$ 16,736,308 | 9,829,835 | 4,087,571 |
| For the year ended June 30, 2015: | | | |
| District’s proportionate share of the net pension liability | \$ 14,339,108 | 7,606,046 | 2,404,434 |

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net positions are available in the separately issued FY15 and FY14 PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the pension plan. At June 30, 2016 and 2015, the District had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2016 or 2015.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The District has adopted a policy whereby the District will contribute to the cost of the premium for health and dental insurance coverage for eligible retirees and their eligible dependents until such time as the retiree is eligible for Medicare coverage. The retirees are responsible for obtaining their own health and dental insurance coverage. The District's policy constitutes a single-employer defined benefit healthcare plan. During the year ending June 30, 2016 and 2015, the District's contribution was 80% of the cost.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Eligible retirees are those who have retired from the District through normal retirement or disability and do not qualify for Medicare. Upon the death of an eligible retiree, his or her spouse and eligible dependents who do not qualify for Medicare are eligible for the benefit with the same terms and conditions. As of June 30, 2016 and 2015, there were twenty and eighteen retirees receiving benefits, respectively.

Funding Policy. Costs of the plan are financed on a pay-as-you-go basis. For the year ended June 30, 2016 and 2015, the District contributed \$151,722 and \$154,744 under the plan, respectively.

Annual Expense and Net Obligation. The District’s annual OPEB expense is calculated based on its annual required contribution (“ARC”), an amount actuarially determined in accordance with accounting standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the District’s OPEB expense for the year ending June 30 and changes in the obligation:

| | 2016 | 2015 |
|--------------------------------------|---------------------|------------------|
| Annual required contribution | \$ 371,400 | 394,413 |
| Interest on net obligation | 152,079 | 135,209 |
| Contributions made from general fund | <u>(151,722)</u> | <u>(154,744)</u> |
| Increase in obligation | 371,757 | 374,878 |
| Obligation, beginning of year | <u>3,379,528</u> | <u>3,004,650</u> |
| Obligation, end of year | <u>\$ 3,751,285</u> | <u>3,379,528</u> |

Funded Status and Funding Progress. The funded status of the plan is as follows. The actuarial accrued liability (“AAL”) as of June 30, 2016 and 2015 is \$4,746,925 and is equal to the unfunded actuarial accrued liability (“UAAL”) as the plan has no assets. The funded ratio is 0%.

Covered payroll for the years ended June 30, 2016 and 2015 is \$8,343,890 and 8,182,932, respectively. UAAL is 57% and 58% of covered payroll for the years ended June 30, 2016 and 2015, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**STATE OF NEW MEXICO
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NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the plan as understood by the District and plan members and include the types of benefits provided at the time of the actuarial valuation and the sharing of benefit costs between the District and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the AAL, consistent with the long-term perspective of the calculations.

In the most recent actuarial valuation July 1, 2015, the projected unit credit cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 7.5% initially declining to an ultimate rate of 3.8% in 2080 and beyond. The District's UAAL is being amortized using the level dollar, open amortization method.

NOTE 11. CONTINGENCIES

Silvery Minnow. In prior years, the District was a party to a number of lawsuits regarding protection of the silvery minnow, a fish which is native to the Rio Grande and is an endangered species. These actions were in regards to the United States government agencies' obligations and authorities to provide protection for the silvery minnow including managing river flow to accommodate their existence. Initial Court rulings had the United States Bureau of Reclamation ("Bureau") discretion to reduce deliveries of certain available water under its contracts with the District to comply with the Endangered Species Act. This ruling was dismissed on appeal. In the following years, parties to those proceedings are abiding by a 2003 biological opinion issued by the United States Fish and Wildlife Service that is now being updated with a new 2016 biological opinion. The river flow requirements of this prior year biological opinion to accommodate the silvery minnows' continued existence have been met during the existing and previous irrigation seasons. In September, 2011, the Bureau issued a draft of an updated biological assessment. The District and other interested parties submitted comments on the draft and in September, 2012, a revised biological assessment was issued.

A new final biological opinion is expected to be issued in December 2016. It is the expectation of the District that the requirements of the new biological opinion and operating practices to accommodate those requirements will have additional budgetary impacts in order to provide the District ESA coverage for the future operations of the District. The Board of Directors have approved a suite of actions that the District is committing to implement including the provision of \$150,000 per year for supporting the science within the Collaborative Program. Similar amounts have been budgeted over the last five years for these purposes. It is also anticipated the new 2016 biological opinion will likely be challenged in federal court that may result in the District filing cross claims to protect its interests.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
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NOTE 11. CONTINGENCIES

Title Claim. A matter that arose from the silvery minnow litigation resulted in the District intervening on a quiet title suit to establish ownership to all District facilities, including dams, canals, drains, Bosque areas, and all structures within District boundaries. The United States government did not counter claim to establish ownership. The United States government contended that a contract signed in 1951 by the District and the Bureau whereby the Bureau agreed to significantly rehabilitate District facilities and provide ongoing maintenance, gave title to the United States government. The reimbursable costs of rehabilitating the District's facilities were repaid to the Bureau by the District in prior years. It is the District's position that it granted an assignment of easement to the Bureau to operate on District property in order to accomplish the purpose of the contract, but did not grant ownership.

In July, 2005 the United States District Court ruled that the District's quiet title suit was time barred under the Federal Quiet Title Act and that ownership of certain specific significant District structures and land tracts resided with the United States government and that title could be re-conveyed by United States congressional action. The District Court additionally ruled that the United States Government has discretion to consult regarding the District's works and water rights. The ruling was appealed to the 10th Circuit Court of Appeals.

In March, 2010, the Circuit Court ruled that the District Court erred in granting summary judgment to the United States government and should have simply dismissed the District's quiet title suit due to statute of limitation requirements. The Circuit Court further stated that their ruling did not settle the title dispute between the District and the United States Government and that the dispute remains to be settled by possible future judicial resolution. The District continues to assert its ownership of all District facilities and is working with the Bureau to resolve this matter. Without resolution between the parties or United States Congressional action, further title dispute resolution is dependent on future United States Government legal proceedings, if any. There is draft legislation being developed to be introduced in both chambers of Congress this upcoming session to help resolve this matter either in part or in total.

Current Litigation/Claims. In July, 2014, the Wildearth Guardians ("plaintiff") brought suit against the United States Bureau of Reclamation and the United States Army Corps of Engineers ("government defendants") seeking the government to use disputed authorities regarding Rio Grande water storage and timing and volume of Rio Grande water flows for two endangered species, the Rio Grande silvery minnow and the Southwestern willow flycatcher as afforded by the Endangered Species Act.

In August, 2014, the District filed a motion to intervene in the lawsuit brought against the government in the United States District Court in order to continue to protect its water rights and those of its constituents, conduct its operations in a manner that benefits its irrigators and constituents, and cooperate to provide protections for endangered species and for existing and future water uses. In November, 2014, the Court ordered that the District be joined as a defendant.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 11. CONTINGENCIES (CONTINUED)

In August, 2014, the District received a notice of intent to sue the District by the same plaintiff. The notice stated the plaintiff intended to bring a civil suit against the District for violating the Endangered Species Act with respect to ongoing water management actions and activities including diversion of water from the Rio Grande causing habitat modification impacting affected endangered species. The District will vigorously contest the suits.

In 2013, the District received a notice of intent to sue the District by an employee. The parties reached a settlement in September 2015, however the employee attempted to back out of the settlement. The Court ruled that the settlement was enforceable and the only remaining issue is whether the District is entitled to an offset for the wages and benefits paid while the employee was on administrative leave. The Court has not scheduled this issue for hearing, and the parties are attempting to resolve the issue without further court intervention.

In May, 2013, the Pueblo of Isleta sent a letter to the United States arguing that the United States breached its duty of trust to the Pueblo and damaged the Pueblo because of the failure to properly maintain the Isleta Dam. The United States has indicated it considers the District responsible for the damages to the Pueblo; the District denies this. The United States has been negotiating with the Pueblo along with the District on this issue and the three parties formed a technical team and a legal team to address the issues. After lengthy negotiations, the parties entered into a Global Settlement Agreement resolving the Pueblo's claims. The District's financial contribution to this Settlement is to provide a total of \$2.5 million during the next ten years to help resolve sedimentation and fish passage at Isleta Diversion Dam. This is expected to be part of the existing District budget or infrastructure improvements deemed necessary prior to the specific requirements of this Settlement. The District funding will leverage \$7.5 million in federal funding to help solve the identified problems with the Dam.

NOTE 12. COMMITMENTS

Bosque Revitalization @ Route 66. In July, 2008, the District entered into a project cooperation agreement with the United States Department of the Army ("government") under which the government agreed to perform certain work related to the environmental revitalization of the Bosque consisting of improving and restoring the ecosystem and constructing recreational features. The District was required to contribute 25% of the ecosystem restoration cost and 50% of the recreation cost. The construction was completed in April, 2010. In September, 2011, the government formally transferred responsibility for the operation and maintenance of the project to the District. In November, 2011, the government completed its interim accounting and cost share analysis for the project and advised the District that the District had met the requirements for the District's cost share of the project. Monitoring of the project by the government will continue through 2021. At the conclusion of the monitoring the government will complete a final accounting, and will advise the District of any additional costs required.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 12. COMMITMENTS (CONTINUED)

Middle Rio Grande Restoration Project. In July, 2011, the District entered into a project partnership agreement with the United States Department of the Army ("government") under which government agreed to design and construct certain ecosystem restoration features and recreation improvements in the Middle Rio Grande Bosque. The estimated cost of the project is \$24,809,000, all of which will be paid by the government. The District is required to provide, at no cost to the government, lands, easements, and rights-of-way for the project. In addition, upon completion of the project, the District will operate and maintain the project, except for portions of the project within Sandia Pueblo lands, the Rio Grande Valley State Park, and the Corrales Bosque Preserve, which will be operated and maintained by the Pueblo of Sandia, City of Albuquerque, and the Village of Corrales, respectively.

Middle Rio Grande Flood Damage Reduction, Bernalillo to Belen. In September, 2012, the District entered into an agreement with the United States Department of the Army ("government") under which the government agreed to conduct a study to identify and evaluate alternatives and make recommendations for flood damage reduction from Bernalillo to Belen, New Mexico. The initial estimated cost of the study was \$950,000. During 2014, the government revised the estimated cost of the study to \$1,380,000. The costs have now increased to \$3,000,000. The District, with demonstrated assistance from the State on previous levee studies, is required to pay 50% of the cost of the study or \$1,500,000. Payments totaling \$650,000 have been made over the last four fiscal years. During FY 2016, the District committed to paying \$242,000 as follows: \$75,000 in FY 2016, \$75,000 in FY 2017 and \$92,000 in FY 2018. The government is seeking the remaining funding of approximately \$750,000 by the end of federal fiscal year FY 2018. The District will seek to find funding either in its own budget in future fiscal years or in partnership with various state agencies impacted by this project.

Rio Grande Floodway San Acacia to Bosque del Apache Unit. In August, 2014, the District, the New Mexico Interstate Stream Commission ("ISC"), and the United States Department of the Army ("government") signed a project partnership agreement for a project to replace approximately 43 miles of spoil bank along the west bank of the Rio Grande with an engineered levee. Currently the government has estimated over the terms of the partnership the total project cost at \$287,000,000, with \$243,950,000 to be paid by the government. The District and the ISC would be responsible for the remaining \$43,050,000 of cost. Upon completion of construction, the District shall operate and maintain the project.

The project management plan for segment one of the project, consisting of 7.3 miles, was signed by the District, ISC, and the government in August, 2014. Segment one of the project will take place in three phases. The estimated cost of segment one is approximately \$59,000,000, of which approximately \$50,200,000 would be paid by the government. The District, ISC, and other local entities would be responsible for the remaining \$8,800,000.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 12. COMMITMENTS (CONTINUED)

In conjunction with funding commitments in 2014 and 2013, the District Board of Directors has approved loan/grant agreements with the New Mexico Water Trust Board ("Trust Board") and the New Mexico Finance Authority ("Finance Authority"). The Trust Board and the Finance Authority provided \$3,003,968 to finance the project in the form of grants in the amount of \$2,853,572 and a loan in the amount of \$150,396 (with certain revenues pledged). In the year ended June 30, 2015, the District drew down the full amount available under these agreements. Another \$1,500,000 in the form of a grant was committed by the Trust Board and the Finance Authority During FY 2016. As of June 30, 2016 this money had not been drawn down. The District is required to make annual payments on the 30 year loan and these payments have been made.

In August, 2014, the District paid \$975,000 to the government for its share of costs for segment one of the project, consisting of \$900,000 of District funds and \$75,000 from another local entity. The ISC contributed \$1,436,032 and the State of New Mexico contributed \$1,000,000 from severance tax bond funding for the project during FY 2015. The ISC contributed another \$1,050,000 during FY 2016. The District has been informed that all funds required as the local cost-share has been provided by the District and the ISC.

Bernalillo New Mexico Section 205 Feasibility. The District agreed to take over local sponsorship of the feasibility study for the Bernalillo levee project from the Town of Bernalillo and Eastern Sandoval County Arroyo Flood Control Authority.

In July, 2014, the District Board of Directors agreed to execute an agreement with the United States Department of the Army ("government") for a feasibility study for flood risk management for the Town of Bernalillo, New Mexico. The government has estimated the cost of the feasibility study at \$472,000, of which \$236,000 would be paid by the government. The District's cost share of \$236,000 would consist of cash of \$226,000 and in-kind of \$10,000. The District executed the agreement in December 2015 and agreed to pay \$50,000 in FY16 and \$50,000 in early FY17.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund. Encumbrances outstanding of \$223,782 and \$309,790 at June 30, 2016 and 2015, respectively, are included in assigned fund balances in the accompanying balance sheets.

REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY OF PERA MUNICIPAL GENERAL DIVISION
Public Employees Retirement Association (PERA) Plan
Last 10 Fiscal Years***

| | 2016 | 2015 |
|---|--------------|-----------|
| District's proportion of the net pension liability | 0.9641% | 0.9750% |
| District's proportionate share of the net pension liability | \$ 9,829,835 | 7,606,046 |
| District's covered payroll | \$ 8,028,757 | 8,028,757 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 122.43% | 94.74% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.99% | 81.29% |

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the State of New Mexico will present information for those years for which information is available.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CONTRIBUTIONS
PERA MUNICIPAL GENERAL DIVISION
Last 10 Fiscal Years***

| | <u>2016</u> | <u>2015</u> |
|---|------------------|-------------|
| Contractually required employer contribution | \$ 766,736 | 766,746 |
| Contributions in relation to the contractually required employer contribution | \$ 766,736 | 766,746 |
| Contribution excess | <u>-</u> | <u>-</u> |
| District's covered payroll | 8,028,645 | 8,028,757 |
| Contributions as a percentage of covered payroll | 9.55% | 9.55% |

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the State of New Mexico will present information for those years for which information is available.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PERA MUNICIPAL GENERAL DIVISION
For the Year Ended June 30, 2016**

Change in accounting principle. For the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 82, Pension Issues. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Additionally, the statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_FY2015.pdf

Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at <http://www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/6-30-2015-PERA-Valuation-Report-FINAL.pdf>. See appendix B on pages 53-61 of the report which summarizes actuarial assumptions and methods effective with the June 30, 2014 valuation.

**MIDDLE RIO GRANDE CONSERVANCY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH AND DENTAL INSURANCE PLAN
Year Ended June 30, 2016**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|-------------------------------------|--|------------------------------------|--------------------------|------------------------|---|
| 07/01/15 | \$ -0- | \$ 4,746,925 | \$ 4,746,925 | 0% | \$ 8,343,890 | 57% |
| 07/01/14 | -0- | 4,746,925 | 4,746,925 | 0% | 8,309,282 | 57% |
| 07/01/13 | -0- | 5,085,215 | 5,085,215 | 0% | 8,097,904 | 63% |
| 07/01/12 | -0- | 5,085,215 | 5,085,215 | 0% | 7,793,016 | 65% |
| 07/01/11 | -0- | 5,420,838 | 5,420,838 | 0% | 7,501,458 | 72% |
| 07/01/10 | -0- | 5,420,838 | 5,420,838 | 0% | 7,201,112 | 75% |
| 07/01/09 | -0- | 6,481,060 | 6,481,060 | 0% | 7,103,713 | 91% |
| 07/01/08 | -0- | 6,481,060 | 6,481,060 | 0% | 6,885,040 | 94% |
| 07/01/07 | -0- | 4,564,597 | 4,564,597 | 0% | 6,358,723 | 72% |

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to termination, disability, morality, and the time value of money to the accumulated plan benefits.

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
Year Ended June 30, 2016

| | General Fund | |
|------------------------------|--------------|--------------|
| Wells Fargo Bank NM, NA | | |
| Balance per books | \$ 2,306,971 | |
| Balance per bank | \$ 2,365,453 | \$ 2,365,453 |
| Less: FDIC coverage | | 250,000 |
| Total uninsured public funds | | 2,115,453 |
| 50% collateral requirement | | 1,057,727 |
| Pledged securities | | 1,385,054 |
| Over (under) | | \$ 327,327 |

Collateralized by FNMA issues as follows:

| Cusip # | Interest Rate | Due | Collateral Value |
|---|---------------|-----------|------------------|
| 3138A2KZ1 | 4.00% | 12/1/2040 | 570,495 |
| 3138WA5Z6 | 3.50% | 2/1/2034 | 169,474 |
| 3140F2P53 | 2.50% | 5/1/2031 | 53,961 |
| 3140F2ZB9 | 2.50% | 5/1/2031 | 591,124 |
| Collateral held by Bank of New York, Mellon, NY, NY | | | \$ 1,385,054 |

| | Special Revenue Fund | | |
|------------------------------|----------------------|------------|--------------|
| | Water Bank | Fund | Total |
| Bank of America | | | |
| Balance per books | \$ 603,853 | \$ 627,989 | \$ 1,231,842 |
| Balance per bank | \$ 603,853 | \$ 672,989 | \$ 1,276,842 |
| Less: FDIC coverage | | | 250,000 |
| Total uninsured public funds | | | 1,026,842 |
| 50% collateral requirement | | | 513,421 |
| Pledged securities | | | 1,030,932 |
| Over (under) | | | \$ 517,511 |

Collateralized by FNMA and FMAC issues as follows:

| Cusip # | Interest Rate | Due | Collateral Value |
|---|---------------|-----------|------------------|
| 3132GRHL8 | 4.00% | 2/1/2042 | \$ 25,260 |
| 3132GUBR4 | 3.50% | 6/1/2042 | 102,720 |
| 3138WD6Q9 | 3.50% | 2/1/2045 | 51,191 |
| 31419ADV6 | 5.50% | 12/1/2035 | 828,896 |
| 31419ALS4 | 6.00% | 9/1/2038 | 10,863 |
| Six similar securities | | | 12,002 |
| Collateral held by Bank of New York Mellon, NY, NY. | | | \$ 1,030,932 |

Reconciliation to financial statements:

| | |
|----------------------|--------------|
| Bank of America | \$ 1,231,842 |
| Wells Fargo Bank, NM | 2,306,971 |
| Cash on hand | 900 |
| Total Cash | \$ 3,539,713 |

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF APPROPRIATIONS
Year Ended June 30, 2016

| <u>Appropriation</u> | <u>Type</u> | <u>Period Beginning</u> | <u>Period Ending</u> | <u>Original Appropriation</u> | <u>Expenditures to Date</u> | <u>Outstanding Encumbrances</u> | <u>Reverted Balance</u> | <u>Unencumbered Balance</u> |
|----------------------|-------------|-------------------------|----------------------|-------------------------------|-----------------------------|---------------------------------|-------------------------|-----------------------------|
| 14-L-G-2251 | STB | 7/1/2014 | 6/30/2016 | \$ 75,000 | 54,342 | - | 20,658 | - |

OTHER INFORMATION

SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
For the Year Ended June 30, 2016
AGENCY MIDDLE RIO GRANDE CONSERVANCY DISTRICT - SPECIAL DISTRICT

| Agency Number | Agency Name | Agency Type | RFB#/RFP# (if applicable) | Type of Procurement | Vendor Name | Did Vendor Win Contract? | \$ Amount of Awarded Contract | \$ Amount of Amended Contract | Physical address of vendor (City, State) | Did the Vendor provide documentation of eligibility for in-state preference? | Did the Vendor provide documentation of eligibility for veterans' preference? | Brief Description of the Scope of Work | If the procurement is attributable to a Component Unit, Name of Component Unit |
|---------------|--|-------------------|---------------------------|--------------------------|-----------------------|--------------------------|-------------------------------|-------------------------------|--|--|---|--|--|
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Golden Equipment | Winner | \$191,456.00 | | Albuquerque, NM | No | No | Purchase of hydraulic Excavator | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Bobcat of Albuquerque | Loser | | | Albuquerque, NM | No | No | | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Century Equipment | Loser | | | Albuquerque, NM | No | No | | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | 4 Rivers Equipment | Loser | | | Albuquerque, NM | No | No | | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Titan Machinery | Loser | | | Albuquerque, NM | No | No | | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Road Machinery | Loser | | | Albuquerque, NM | No | No | | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Wagner Equipment | Loser | | | Albuquerque, NM | No | No | | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | HUB International | Winner | \$366,150.00 | | Albuquerque, NM | No | No | District commercial insurance (annual premiums based on budget, salaries, utilization, etc.) | |

SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
 For the Year Ended June 30, 2016
 AGENCY MIDDLE RIO GRANDE CONSERVANCY DISTRICT - SPECIAL DISTRICT

| Agency Number | Agency Name | Agency Type | RFB#/RFP# (if applicable) | Type of Procurement | Vendor Name | Did Vendor Win Contract? | \$ Amount of Awarded Contract | \$ Amount of Amended Contract | Physical address of vendor (City, State) | Did the Vendor provide documentation of eligibility for in-state preference? | Did the Vendor provide documentation of eligibility for veterans' preference? | Brief Description of the Scope of Work | If the procurement is attributable to a Component Unit, Name of Component Unit |
|---------------|--|-------------------|---------------------------|--------------------------|-----------------------------|--------------------------|-------------------------------|-------------------------------|--|--|---|--|--|
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Waterman Industries | Winner | \$150,150.25 | | San Francisco, CA | No | No | Purchase of C105B Waterman Slide Gates District wide | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Albuquerque Gravel Products | Winner | \$135,000.00 | | Albuquerque, NM | No | No | Purchase of cement material Cochiti, Albuquerque and Belen divisions | |
| 4027 | Middle Rio Grande Conservancy District | Special Districts | | Competitive (RFP or RFB) | Coyote Gravel | Loser | | | Albuquerque, NM | No | No | | |

OTHER REPORT



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**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 Auditor's Report

The Judges of the District Court of the
Second Judicial District of the
State of New Mexico
and
The Board of Directors of the
Middle Rio Grande Conservancy District
and
Mr. Timothy Keller, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparisons of the general fund of the Middle Rio Grande Conservancy District, State of New Mexico ("District"), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 2, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2015-002.

Middle Rio Grande Conservancy District's Responses to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Ricci & Company LLC

Albuquerque, New Mexico

December 2, 2016

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016**

A. PRIOR YEAR AUDIT FINDINGS

| | | |
|----------|---|-----------------------|
| 2015-001 | Incomplete Payroll Files (Other Non-Compliance) | Resolved |
| 2015-002 | Procurement (Other Non-Compliance) | Modified and Repeated |

B. CURRENT YEAR AUDIT FINDINGS

| | |
|----------|------------------------------------|
| 2015-002 | Procurement (Other Non-Compliance) |
|----------|------------------------------------|

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016**

C. FINDINGS AND RESPONSES – COMPLIANCE AND OTHER MATTERS

2015-002 PROCUREMENT (OTHER NON-COMPLIANCE)

CONDITION

During internal control test work over cash disbursements and procurement, it was noted that for four after the 2015 audit finding out of twenty two items tested, purchase requisitions and purchase orders were initiated after purchases were already made and upon receipt of goods.

CRITERIA

The District's procurement regulations adopted by the Board are described as "Superseded MRGCD Rule 26" which incorporate the state's procurement code as prescribed by NMSA 1978, Sec 13-1-28 through 13-1-199.

EFFECT

Purchases were made without going through the proper procurement process and before receiving the proper approval.

CAUSE

Employees circumvented controls by not following the proper channels required for purchases.

RECOMMENDATION

Management should ensure that employees are complying with procurement regulations and internal controls by providing employees with the "Superseded MRGCD Rule 26" and by monitoring purchases.

MANAGEMENT RESPONSE

After receiving notice of the repeat audit finding, meetings have been scheduled with all employees with purchasing authority to go over the audit finding, to discuss the impact of the finding and to outline new procedures that are being put into place. We will also hand out and discuss the Superseded MRGCD Rule 26 in the meeting. After the meeting a final policy will be distributed to all attendees who will be asked to acknowledge receipt of the policy and that they understand and will follow the policy. The Chief Procurement Officer will monitor compliance with the new procedures and will notify employees of any violations. The employee will be required to explain the non-compliance. The findings and response will be reported to the Treasurer who will follow up with the employees' manager. If violations continue their purchasing authority will be taken away and other steps put in place to procure items for that division or department.

**STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
EXIT CONFERENCE
Year Ended June 30, 2016**

A. EXIT CONFERENCE

An exit conference was held on December 8, 2016, to discuss the annual financial report. Attending were the following:

Representing the Middle Rio Grande Conservancy District:

| | |
|-----------------------|---------------------------|
| Mike Hamman | Chief Executive Officer |
| David M. Fergeson | Secretary/Treasurer |
| Melin Villagas-Vargas | Accounting Manager |
| Chris Sichler | Board Member |
| Jeanette Bustamante | Chief Procurement Officer |

Representing the Independent Auditor:

Wayne Brown, CPA, Director

B. AUDITOR PREPARED FINANCIAL STATEMENTS

Management is responsible for the context of the report, even though the financial statements were prepared substantially by the independent auditor. It would be preferred and desirable for the District to prepare its own financial statements and footnotes; although the District is capable, with guidance, of preparing, reviewing and approving the financial statements and footnotes, it is felt that the District's personnel do not have the time to prepare them.