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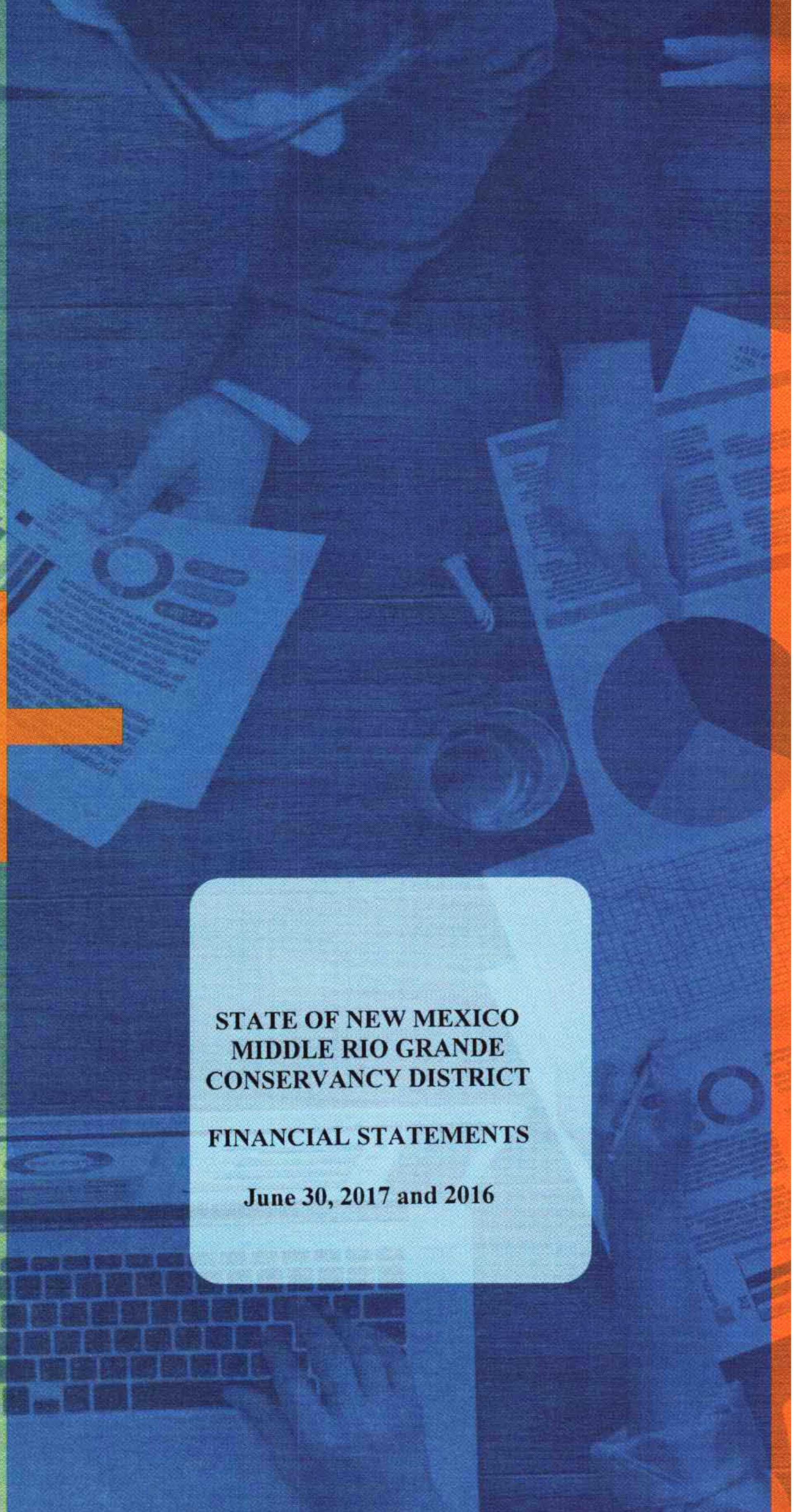

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT

FINANCIAL STATEMENTS

June 30, 2017 and 2016

Accounting · Business Consultation · Auditing & Assurance

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, 2017

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 Cindy Leos	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 Hart	Division No. 21
Honorable Deborah Davis Walker	Division No. 22
Honorable Shannon Bacon	Division No. 23
Honorable Debra Ramirez	Division No. 24
Honorable Jane Levy	Division No. 25
Honorable Charles Brown	Division No. 26
Honorable Victor Lopez	Division No. 27

BOARD OF DIRECTORS

	Position No.	County
John Kelly, Chair	2	Bernalillo
Glen Duggins, Vice-Chair	1	At-Large
Derrick J. Lente,	7	Sandoval
Karen Dunning	3	Bernalillo
Joaquin Baca	4	Bernalillo
Beverly Dominguez Romero	5	Valencia
Valerie Moore	6	Socorro

OFFICERS

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

6200 Uptown Blvd., NE, Suite 400
Albuquerque, NM 87110
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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. Wayne Johnson, 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, 2017 and 2016, 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, 2017 and 2016 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, 2017 the District adopted GASBS No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* which establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenditures. Changes adopted to conform to the provisions of this statement require a retroactive restatement. 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, GASBS 68 required supplementary pension schedules on pages 56-58, and the GASBS 75 OPEB schedule on page 59 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, 2017 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, 2017 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, 2017 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, 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 12, 2017

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. The District has found it necessary to increase the ad valorem mill and water service charge rates in order to meet the operating needs and to provide funding for needed capital improvements to the District infrastructure.

The District continues to seek other funding sources such as state and federal grants for projects and non-recurring expenditures. The District was able to secure federal grants totaling over $500,000 in federal matching monies to assist with drought contingency planning and to construct a pumping station to maximize the use of water in Socorro County.

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, 2017. Mike Hamman, CEO and Chief Engineer continues to implement positive changes on the operations of the District. These changes include securing the federal grant funds to help with water distribution and to study the impact of drought conditions, creating irrigation system and on-farm efficiencies to reduce the amount of water needed to both deliver water to and use by farmers while continuing to meet their demand for quality crop production. 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 liabilities 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 provides 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.

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 2017	FY 2016	Percent Change
Assets			
Current and other short term assets	$ 26,258,029	$24,720,696	6.22%
Long term assets	2,303,533	2,623,784	-12.21%
Capital assets, net of depreciation	23,911,896	25,182,839	-5.05%
Total Assets	52,473,458	52,527,319	-0.10%
Deferred Outflows of Resources	5,142,135	766,736	570.65%
Liabilities			
Current Liabilities	1,319,575	2,677,036	-50.71%
Long term liabilities excluding	8,758,879	8,878,917	-1.35%
Net pension liability	14,946,142	9,829,835	52.05%
Total Liabilities	25,024,596	21,385,788	17.02%
Deferred Inflows of Resources	999,096	317,589	214.59%
Net Position			
Invested in Capital Assets	23,789,507	25,052,962	-5.04%
Unrestricted	7,802,394	6,537,716	19.34%
Total Net Position	$ 31,591,901	$ 31,590,678	0%

Statement of Activities

	FY 2017	FY 2016	Percent Change
Revenues			
Program Revenues	$ 2,874,974	$ 4,447,570	-35.97%
General Revenues	17,802,908	15,994,723	11.30%
Total Revenues	20,650,882	20,442,293	1.02%
Expenses			
Public Works	20,649,659	18,257,514	13.10%
Change in Net Position	1,223	2,184,779	-99.94%
Net Position, Beginning of Year	31,590,678	33,133,031	-4.66%
Prior Period adjustment	-	(3,727,132)	-100.00%
Net Position, End of Year	$ 31,591,901	$ 31,590,678	0%

The District management believes the financial position of the District has improved significantly over the last several years. The increases in ad valorem and water service charge rates have allowed us to increase our cash position which is critical to improving the District infrastructure. We have been able to fund ongoing projects with the United States Army Corps of Engineers, to purchase needed equipment, and bring revenues and expenses in line with each other and not be in a position to have to rely on cash reserves to balance the budget.

FINANCIAL HIGHLIGHTS – STATEMENT OF NET POSITION

ASSETS

- Total Assets remained relatively flat in fiscal year 2017 increasing by only $53,861 but this is the result of an increase in cash offset by a decrease in capital assets as is explained below.
- Current and other short term assets increased by 6.22% or $1.5 million. Cash and investments are up $2.85 million at fiscal year end
- The District received $320 K from the United States Department of the Army related to the outstanding receivable from the Albuquerque West Levee and anticipates receiving additional funds in FY 18.
- Capital Assets decreased by $1.3 M and is described in more detail in the Capital Asset and Debt Administration section.

LIABILITIES

- Total Liabilities increased by $3.6 million primarily from two areas. The net pension liability increased by $5.1 M due to an increase in the funding component of the retiree health benefits which were offset by a $1.4 M reduction in vouchers payable. The remaining liability accounts reflect small changes that are not discussed.

FINANCIAL HIGHLIGHTS - STATEMENT OF ACTIVITIES

- Total revenues increased by $208,589. General revenues increased by $1.8 M as a result of the increase in ad valorem rates while program revenues decreased by $1.6 M. In FY 16 the District recognized $1.5 M for the funding for the San Acacia to Bosque del Apache project as part of the program revenues and there is no corresponding revenue in FY 17 which resulted in the decrease.

- Program Expenses in FY 17 were up $2.4 M over fiscal year 2016. Employee benefits were significantly higher ($1.4 M) due to the expense recognition related to the net pension liability and the early implementation of GASB 75 for the retiree healthcare coverage.

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. The preliminary budget must be submitted by June 1st of each year and the final budget submitted by July 31st of the same year along with unaudited prior year financial statements approved by the board. 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 expenditures of the general fund may not legally exceed the budget. The District does not adopt a legal budget for the special revenue fund as this fund only receives revenue from land sales which are infrequent and therefore difficult to budget.

The budgetary comparisons are presented on a non-GAAP budgetary basis. For the fiscal year ended June 30, 2017, the District budgeted expenditures exceeded revenue estimate by $330,573. 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, 2017, actual revenues were $20,781,924. Compared to the budget of $19,773,955, the District collected $1,007,969 more than originally expected. Total Ad Valorem Assessment Revenue was $16,368,688 or $424,578 more than budgeted.

For the year ended June 30, 2017, actual expenditures were $19,386,501 while budgeted expenditures were $20,104,528 resulting in a favorable variance of $718,027.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets decreased by $1.3 M as funding in the amount of $600 K previously recorded as part of the San Acacia to Bosque del Apache project has been redirected by the US Army Corps of Engineers to another project involving the District; and depreciation, a contra account, increased by $624 K. The District will spend approximately $1 M to construct a distribution hub in Socorro County. The Bureau of Reclamation has given the District a $295,000 grant for this project. At this time, there are no debt limitations that may affect the financing of this facility.

DISTRICT HIGHLIGHTS

Change in Mill Rate

- On May 22, 2017 the District's Board of Directors increased the mill rate levy to \$4.8279 for residential customers and \$6.0318 for non-residential customers effective with the assessments mailed out in the later part of 2017. They also increased the water service charge from \$37 per acre to \$40 per acre beginning with calendar year 2018.

- District management believes these rate increases had to be implemented to keep revenues in line with recurring operating costs and to allow for much needed improvements to the District infrastructure. Management continues to monitor 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 by management to the Board of Directors. Analysis continues 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.

Ongoing District Commitments

- The District continues to work with the United States Department of the Army (government) on various projects. Currently we are working on a flood damage reduction project from Bernalillo to Belen, on a feasibility study for the Bernalillo levee, and the Rio Grande Environmental Management Plan from Sandia to Isleta. These projects are discussed in detail in Note 12 of the Financial Statements.

District Contingencies

- The District also continues to work with the United States Government to settle the title claim issue related to ownership of district facilities. District employees and legal advisors participated in the development of a new Biological Opinion related to the silvery minnow, southwestern willow flycatcher, and yellow billed cuckoo. The new biological opinion was issued in December 2016. Both of these issues are detailed in Note 11 – Contingencies.

Asset Management Plan

- The District continues to develop an asset management plan for its aging vehicles and equipment. The FY 18 budget set aside \$1 M to lease, lease/purchase or to purchase vehicles and equipment. The New Mexico Finance Authority has been identified as an agency that could assist the District in meeting its' equipment needs and management is exploring the use of this option along with leasing of equipment to meet its' asset needs.

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. At the beginning of FY 17, the balance was \$2.6 M. During the fiscal year, the District received \$321,571 in a cash payment towards this receivable. The District expects to receive additional cash but may also receive in-kind contributions for future projects with the Department of the Army. The District has an offsetting liability to Bernalillo County and AMFACA to repay them \$811,770 as funds are received. Bernalillo County has agreed to forego all but 10% of their cash payment on the first reimbursement and instead to have the District hold these funds to use on a future project.

San Acacia to Bosque del Apache Levee Project

- In August 2014, the District, as the official sponsor, 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 have invested over \$8.9 million into this project. Additional information about this project can be found in Note 13 to the financial statements. The first Phase of this project that protects the City of Socorro reach has been finished and will be turned over to the District for maintenance.

Contract with the Bureau of Indian Affairs

- The District and BIA have 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 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 increased by \$20 K in FY 17 due to some unanticipated purchases but we remain committed to having only essential items in inventory. 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 three payouts have been completed. The compensated absences liability has been reduced by over $230,000 since July 1, 2015.

Five Year Plan

- The District management continues with its' 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 has not been fully developed but work is ongoing. This will help inform management and the Board about out-year operating budgets and capital outlay needs.

Economic Factors and Next Year's Budget

The approved budget for fiscal year 2018 expenditures is $22,106,447 while revenues are projected to be $22,568,377. This is the first budget in several years that does not require the district to set aside funds from reserves to meet its' obligations. This budget projects a surplus of $461,930. This can be attributed to the rate increases finally bringing revenues closer to operational needs.

The District anticipates that additional rates increases may be necessary 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 with the District funding 50% of each grant as a match; the District obligations will be $200,000 and $300,000.

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
STATEMENTS OF NET POSITION
GOVERNMENT-WIDE
June 30, 2017 and 2016

		Governmental Activities	
		2017	2016
ASSETS			
Cash and cash equivalents	$	**2,996,530**	3,539,713
Investment in Local Government Investment Pool		**19,427,399**	16,032,837
Funds held with NMFA		**-**	1,500,000
Current receivables, net:			
Ad valorem assessments, net of allowance of $170,879 and $200,154		**2,293,278**	1,913,193
Water service and delinquency charges, net of allowance of $213,400 and $213,400		**345,347**	322,946
Government Contracts			
Federal		**300,652**	60,154
Local		**-**	226,008
Other		**-**	-
Other receivables		**21,648**	261,997
Material and supply inventories, at cost		**873,175**	853,592
Prepaid expenses		**-**	10,256
Contract receivable from United States Department of the Army due after one year		**2,303,533**	2,623,784
Capital assets			
Land		**456,999**	457,094
Construction in progress		**5,081,753**	5,681,753
Depreciable property, equipment, and infrastructure, net of accumulated depreciation		**18,373,144**	19,043,992
Total assets		**52,473,458**	52,527,319
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions		**4,373,249**	-
Employer contributions subsequent to measurement date		**768,886**	766,736
Total deferred outflows of resources		**5,142,135**	766,736
LIABILITIES			
Vouchers payable		**332,639**	1,767,701
Accrued payroll and related benefits payable		**468,589**	356,975
Other liabilities		**46,707**	42,907
Accrued compensated absences:			
Payable within one year		**464,133**	501,965
Payable after one year		**389,758**	466,341
Note payable:			
Payable within one year		**7,507**	7,488
Payable after one year		**114,882**	122,389
Payable to local governments, due after one year		**811,770**	811,770
Net pension liability		**14,946,142**	9,829,835
Obligation for postemployment benefits, payable after one year		**7,442,469**	7,478,417
Total liabilities		**25,024,596**	21,385,788
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to OPEB		**562,381**	-
Deferred inflows related to pensions		**436,715**	317,589
Total deferred inflows of resources		**999,096**	317,589
NET POSITION			
Net investment in capital assets		**23,789,507**	25,052,962
Unrestricted		**7,802,394**	6,537,716
Total net position	$	**31,591,901**	31,590,678

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

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
STATEMENTS OF ACTIVITIES
GOVERNMENT-WIDE
Years Ended June 30, 2017 and 2016

		Governmental Activities	
		2017	2016
Program Expenses			
Public works:			
Personnel services	$	**8,202,519**	8,227,460
Employee benefits		**5,134,728**	3,676,108
Contractual operating and maintenance services		**1,268,158**	676,774
Field expenses		**1,872,623**	1,932,107
General and administrative expenses		**2,983,008**	2,519,799
Interest expense		**325**	343
Depreciation		**1,378,523**	1,423,487
Internal costs capitalized		**(190,225)**	(198,564)
Total program expenses		**20,649,659**	18,257,514
Program Revenues			
Charges for services:			
Water services assessments		**1,842,793**	1,867,152
Program specific operating grants:			
Federal		**721,843**	801,843
Local		**283,338**	278,575
Program specific capital grants:			
Federal		**-**	1,500,000
Total program revenues		**2,847,974**	4,447,570
Net program expense		**(17,801,685)**	(13,809,944)
General revenues			
Ad valorem assessments		**16,742,151**	15,250,308
Delinquency charges		**290,740**	268,369
Transfers in - severance tax appropriation		**-**	53,672
Investment income		**86,487**	42,252
Gain on equipment and property removal		**74,132**	7,490
Gain on land sales and water bank leases		**411,779**	214,237
Other revenue		**197,619**	158,395
Total general revenues		**17,802,908**	15,994,723
Increase in net position		**1,223**	2,184,779
Net position, beginning of year		**31,590,678**	33,133,031
Restatement - GASBS 75 implementation		**-**	(3,727,132)
Net position, beginning of year, as restated		**31,590,678**	29,405,899
Net position, end of year	$	**31,591,901**	31,590,678

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017 with Comparative 2016 Totals

				Governmental Funds	
		General	Special Revenue	**Total 2017**	Total 2016
ASSETS					
Cash and cash equivalents	$	1,760,170	1,236,360	**2,996,530**	3,539,713
Investment in Local Government Pool		12,835,772	6,591,627	**19,427,399**	16,032,837
Funds held with NMFA		-	-	-	1,500,000
Current receivables, net:					
Ad valorem assessments, net of allowance of $170,879 and $200,154		2,293,278	-	**2,293,278**	1,913,193
Water service and delinquency charges, net of allowance of $216,400 and $213,400		345,347	-	**345,347**	322,946
Governmental Contracts					
Federal		300,652	-	**300,652**	60,154
Local		-	-	-	226,008
Interfund receivable		-	-	-	-
Other receivables		21,648	-	**21,648**	261,997
Material and supply inventories, at cost		873,175	-	**873,175**	853,592
Prepaid expenses		-	-	-	10,256
Contract receivable from United States Department of Army, due after one year		2,303,533	-	**2,303,533**	2,623,784
Total assets	$	20,733,575	7,827,987	**28,561,562**	27,344,480
LIABILITIES					
Vouchers payable	$	332,639	-	**332,639**	1,767,701
Accrued payroll and related benefits payable		468,589	-	**468,589**	356,975
Interfund payable		-	-	-	-
Other liabilities		46,707	-	**46,707**	42,907
Payable to local governments, due after one year		811,770	-	**811,770**	811,770
Total liabilities		1,659,705	-	**1,659,705**	2,979,353
DEFERRED INFLOWS OF RESOURCES					
Revenue not available to pay current period expenditures		4,025,172	-	**4,025,172**	4,185,486
Total liabilities and deferred inflows of resources		5,684,877	-	**5,684,877**	7,164,839
FUND BALANCES					
Nonspendable inventory and prepaids		873,175	-	**873,175**	863,848
Committed		-	7,223,893	**7,223,893**	7,219,615
Assigned		3,379,522	604,094	**3,983,616**	2,833,585
Unassigned		10,796,001	-	**10,796,001**	9,262,593
Total fund balances		15,048,698	7,827,987	**22,876,685**	20,179,641
Total liabilities, deferred inflows of resources and fund balances	$	20,733,575	7,827,987	**28,561,562**	27,344,480

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, 2016

		General	Special Revenue	Governmental Funds
ASSETS				
Cash and cash equivalents	$	2,307,871	1,231,842	3,539,713
Investment in Local Government Pool		9,441,211	6,591,626	16,032,837
Funds held with NMFA		1,500,000	-	1,500,000
Current receivables, net:				
Ad valorem assessments, net of allowance of $328,917		1,913,193	-	1,913,193
Water service and delinquency charges, net of allowance of $213,400		322,946	-	322,946
Governmental Contracts				
Federal		60,154	-	60,154
Local		226,008	-	226,008
Interfund receivable		-	-	-
Other receivables		261,997	-	261,997
Material and supply inventories, at cost		853,592	-	853,592
Prepaid expenses		10,256	-	10,256
Contract receivable from United States Department of Army, due after one year		2,623,784	-	2,623,784
Total assets	$	19,521,012	7,823,468	27,344,480
LIABILITIES				
Vouchers payable	$	1,767,701	-	1,767,701
Accrued payroll and related benefits payable		356,975	-	356,975
Interfund payable		-	-	-
Other liabilities		42,907	-	42,907
Payable to local governments, due after one year		811,770	-	811,770
Total liabilities		2,979,353	-	2,979,353
DEFERRED INFLOWS OF RESOURCES				
Revenue not available to pay current period expenditures		4,185,486	-	4,185,486
Total liabilities and deferred inflows of resources		7,164,839	-	7,164,839
FUND BALANCES				
Nonspendable inventory and prepaids		863,848	-	863,848
Committed		-	7,219,615	7,219,615
Assigned		2,229,732	603,853	2,833,585
Unassigned		9,262,593	-	9,262,593
Total fund balances		12,356,173	7,823,468	20,179,641
Total liabilities, deferred inflows of resources and fund balances	$	19,521,012	7,823,468	27,344,480

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, 2017 and 2016

		2017	2016
Total fund balances (Balance sheet)	$	**22,876,685**	20,179,641
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.		**23,911,896**	25,182,839
Other long-term assets (receivables) are not available to pay current period expenditures and therefore are deferred in the funds.		**4,025,172**	4,185,486
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds		**4,705,420**	449,147
Deferred outflows and inflows of resources related to OPEB are applicable to future reporting periods and, therefore, are not reported in the funds		**(562,381)**	-
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		**(853,891)**	(968,306)
Note payable		**(122,389)**	(129,877)
Net pension liability		**(14,946,142)**	(9,829,835)
Obligation for postemployment benefits		**(7,442,469)**	(7,478,417)
Total net position (statement of net position)	$	**31,591,901**	31,590,678

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, 2017 with
Comparative Totals for the Year Ended June 30, 2016

				Governmental Funds	
		General	Revenue	**Total 2017**	Total 2016
Revenues					
Ad valorem assessments	$	16,367,087	-	**16,367,087**	15,285,813
Water service assessments		1,831,912	-	**1,831,912**	1,823,242
Delinquency charges		290,740	-	**290,740**	268,369
Investment income		85,994	493	**86,487**	42,252
Contracts with governmental entities					
Federal		1,042,094	-	**1,042,094**	721,843
Local		509,346	-	**509,346**	52,567
Capital grants		-	-	-	1,500,000
Other		197,619	-	**197,619**	158,395
Water bank leases		407,753	-	**407,753**	187,827
Land sales		-	4,026	**4,026**	26,410
Total revenues		20,732,545	4,519	**20,737,064**	20,066,718
Expenditures					
Public works					
Current operations		17,588,984	-	**17,588,984**	17,216,374
Capital outlays		552,120	-	**552,120**	2,213,858
Debt service:					
Principal		7,488	-	**7,488**	7,470
Interest		325	-	**325**	343
Total expenditures		18,148,917	-	**18,148,917**	19,438,045
Excess (deficiency) of revenues over expenditures		2,583,628	4,519	**2,588,147**	628,673
Other Finance Sources (Uses)					
Transfers in - severance tax appropriation		-	-	-	53,672
Equipment disposition proceeds		108,897	-	**108,897**	7,530
Loan proceeds		-	-	-	-
Total other financing sources (uses)		108,897	-	**108,897**	61,202
Increase (decrease) in fund balances		2,692,525	4,519	**2,697,044**	689,875
Fund balances, beginning of year		12,356,173	7,823,468	**20,179,641**	19,489,766
Fund balances, end of year	$	15,048,698	7,827,987	**22,876,685**	20,179,641

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

		General	Special Revenue	Governmental Funds
Revenues				
Ad valorem assessments	$	15,285,813	-	15,285,813
Water service assessments		1,823,242	-	1,823,242
Delinquency charges		268,369	-	268,369
Investment income		41,777	475	42,252
Contracts with governmental entities				
Federal		721,843	-	721,843
Local		52,567	-	52,567
Capital grants		1,500,000	-	1,500,000
Other		158,395	-	158,395
Water bank leases		187,827	-	187,827
Land sales		-	26,410	26,410
Total revenues		20,039,833	26,885	20,066,718
Expenditures				
Public works				
Current operations		17,216,374	-	17,216,374
Capital outlays		2,213,858	-	2,213,858
Debt service:				
Principal		7,470	-	7,470
Interest		343	-	343
Total expenditures		19,438,045	-	19,438,045
(Deficiency) excess of revenues over expenditures		601,788	26,885	628,673
Other Finance Sources (Uses)				
Transfers in - severance tax appropriation		53,672	-	53,672
Equipment disposition proceeds		7,530	-	7,530
Loan proceeds		-	-	-
Total other financing sources (uses)		61,202	-	61,202
(Decrease) increase in fund balances		662,990	26,885	689,875
Fund balances, beginning of year		11,693,183	7,796,583	19,489,766
Fund balances, end of year	$	12,356,173	7,823,468	20,179,641

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, 2017 and 2016

		2017	2016
Increase (decrease) in fund balances (statement of revenues, expenditures and changes in fund balances)	$	2,697,044	689,875
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.		742,345	2,412,422
Governmental funds do not report depreciation expense which is recorded in the statements of activities.		(1,378,523)	(1,423,487)
Costs of assets capitalized under construction in progress in prior periods were were redistributed to expense by USACE. This expense was not previously capitalized in governmental funds.		(600,000)	-
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.		(34,765)	(40)
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.		(160,314)	314,413
Governmental funds do not report the net change in compensated absences		114,415	116,430
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.			
Principal repaid		7,488	7,470
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		768,886	766,736
Pension expense		(1,628,920)	(327,283)
Governmental funds do not report the net change in other postemployment benefits			
OPEB Liability		35,948	(371,757)
Deferred inflows related to OPEB		(562,381)	-
Increase in net position (statement of activities)	$	1,223	2,184,779

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, 2017

		Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues					
Ad valorem assessments	$	15,944,110	15,944,110	16,368,688	424,578
Water service assessments		1,899,852	1,899,852	1,984,008	84,156
Delinquency charges		270,000	270,000	284,613	14,613
Investment income		30,000	30,000	85,994	55,994
Contracts with governmental entities		1,114,943	1,114,943	1,231,189	116,246
Operating and capital grants		188,000	188,000	320,251	132,251
Other		327,050	327,050	507,181	180,131
Total revenues		19,773,955	19,773,955	20,781,924	1,007,969
Expenditures					
Current Operations					
Personnel services		8,731,115	8,731,115	8,317,399	413,716
Employee benefits		4,088,118	4,088,118	3,751,350	336,768
Contractual operating and maintenance services		668,156	668,156	668,158	(2)
Field expenses		2,060,175	2,060,175	1,818,890	241,285
General and administration expense		3,244,364	3,244,364	2,580,254	664,110
Capital outlays		1,204,600	1,204,600	1,728,176	(523,576)
Grants		108,000	108,000	67,980	40,020
Special projects		-	-	446,481	(446,481)
Debt payments		-	-	7,813	(7,813)
Total expenditures		20,104,528	20,104,528	19,386,501	718,027
(Deficiency) excess of revenues over expenditures		(330,573)	(330,573)	1,395,423	1,725,996
(Deficiency) excess of revenues over expenditures and other sources (uses)	$	(330,573)	(330,573)	1,395,423	1,725,996
Prior year fund balance budget basis	$	330,573	330,573		

(Decrease) increase in fund balance - non-GAAP budgetary basis	$	1,395,423
Change in:		
Ad valorem receivables		380,085
Water service receivables		22,401
Other receivables		
Unavailable revenue		(385,945)
Encumbrances		1,313,536
Capital asset changes not included in budget		(10,723)
Other		(22,252)
Increase (decrease) in fund balance - GAAP basis	$	2,692,525

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 outlay		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
(Decrease) increase in fund balance - GAAP basis	$	689,875

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

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.

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, 2017 or 2016); 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, 2017 or 2016. 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.

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. 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.

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, 2017, the carrying amount of the District's cash deposits was $2,996,530 and the bank balance on these accounts was $3,348,637. Funds in the amount of $2,848,637 as of June 30, 2017 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, 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.

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, 2017 and 2016 consists of two accounts in the New Mexico State Treasurer's Local Government Investment Pool ("Pool"). Participation in the Pool is voluntary. Investments totaling $19,427,399 and $16,032,837 are stated at fair value based on quoted market value as of June 30, 2017 and 2016, respectively.

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, 2017 and 2016.

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, 2017, the Pool's WAM (R) was 58 days and the WAM (F) was 106 days. At June 30, 2016, the Pool's WAM (R) was 44 days and the WAM (F) was 77 days.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2017 and 2016, 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 $34,251 and $20,273 during the years ended June 30, 2017 and 2016, respectively. The total interest earned in the Pool was $78,415 and $41,777 for the years ended June 30, 2017 and 2016, 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.

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

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, 2017 and 2016, accrued vested annual leave totaled $478,886 and $628,698, 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, 2017 and 2016, accrued vested sick leave totaled $295,732 and $284,750, respectively.

Qualified employees may elect to treat overtime hours worked as compensatory time. At June 30, 2017 and 2016, accrued vested compensatory leave totaled $44,602 and $27,867, respectively. Qualified employees are granted one personal holiday and several legal holidays as set by the Board for every calendar year. At June 30, 2017 and 2016, accrued vested holiday leave totaled $34,671 and $26,991, 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.

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, 2017 through 2012.

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.

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, 2017, were as follows:

	General Fund	Special Revenue Fund
Fund balances:		
Nonspendable:		
Inventories	$ 873,175	-
Prepaid items	-	-
Total nonspendable	873,175	-
Committed to:		
Endowment	-	7,223,893
Assigned to:		
Balance 2018 budget	-	-
1/12 of 2018 budget	1,842,204	-
2017 encumbered funds	1,537,318	-
Water bank fund and reserve	-	604,094
Total assigned	3,379,522	604,094
Unassigned	10,796,001	-
Total fund balances	$ 15,048,968	7,827,987

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fund Balances (Continued)

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	863,848	-
Committed to:		
Endowment	-	7,219,615
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	2,229,732	603,853
Unassigned	9,262,593	-
Total fund balances	$ 12,356,173	7,823,468

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.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Implementation of New Accounting Standards

During the year ended June 30, 2017, the District adopted the following Governmental Accounting Standards Board Statement (GASBS):

GASBS No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18).

As a result of implementing GASBS No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District has restated beginning net position, and the obligation for postemployment benefits, payable after one year in the government-wide Statement of Net Position and Statement of Activities for the year ended June 30, 2016. As required by GASBS No. 75, the OPEB liability at June 30, 2016 and 2017 has been valued using the "entry age normal as a level of percentage of pay" as the actuarial method, as opposed to the "projected unit credit cost method (level dollar normal cost)" which was used prior to the adoption of GASBS No. 75. GASBS No. 75 requires a restatement for changes adopted to conform to the provisions of this statement.

Prior period adjustment - Implementation of GASBS No. 75:

June 30, 2016 beginning net position was impacted as follows:

Net position, beginning of year as originally reported	$ 33,133,031
Less: Change in obligation for postemployment benefits	(3,727,132)
Net position, beginning of year as restated	$ 29,405,899

June 30, 2016 Statement of Net Position was impacted as follows:

	Originally Reported	As Restated	Change
Obligation for postemployment benefits	3,751,285	7,478,417	3,727,132
Unrestricted net position	10,264,848	6,537,716	(3,727,132)

Change is the result of a change in the actuarial method measurement of OPEB liability.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Subsequent Events

Management has evaluated subsequent events through December 12, 2017, the date which the financial statements were available to be issued.

NOTE 3. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

For the year ended June 30, 2017 and 2016, general fund budgeted expenditures exceeded budgeted revenues by $330,573 and $2,678,369, 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, 2017 or 2016.

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.

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. During the year ended June 30, 2017, the District received reimbursement in the amount of $320,251. The receivable due from the government at June 30, 2017 and 2016 amounts to $2,303,533 and $2,623,784, respectively, 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, 2017, 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, 2017 and 2016, 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, 2017 and 2016, 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.

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, 2017, water service assessments were assessed and levied at a uniform rate per acre of $34 based on acreage approximating 53,549. Ad valorem assessments for the year ending June 30, 2017 were assessed and levied at a rate of $4.60 per $1,000 of valuation of residential property and $5.74 per $1,000 valuation of nonresidential property based on valuations determined by the county assessors. 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. 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:

	2017	2016
Ad valorem assessments	$ 1,909,455	1,534,391
Water service and delinquency charges	323,302	312,421
Governmental contracts –		
Federal	1,792,415	2,112,666
Local	-	226,008
	$ 4,025,172	4,185,486

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Increases	Decreases	Adjustments	Balance June 30, 2017
Capital Assets					
Non-depreciating:					
Land	$ 457,094	-	95	-	456,999
Construction in progress	5,681,753	-	-	(600,000)	5,081,753
Depreciating:					
Buildings and improvements	3,366,833	208,311	-	-	3,575,144
Office furniture and equipment	477,679	59,092	29,437	-	507,334
Computer software	410,106	-	-	-	410,106
Engineering equipment	158,239	44,851	92,442	-	110,648
Communication equipment	10,795	-	-	-	10,795
Motor vehicles and trailers	6,472,236	178,558	330,291	-	6,320,503
Weed and pest control equipment	368,940	10,124	1,795	-	377,269
Heavy field equipment	10,787,813	17,819	335,006	-	10,470,626
Shop and field equipment	214,156	-	-	-	214,156
Infrastructure	15,011,168	223,590	-	-	15,234,758
Total capital assets	43,416,812	742,345	789,066	(600,000)	42,770,091
Less accumulated depreciation:					
Buildings and improvements	1,599,719	85,926	-	-	1,685,645
Office furniture and equipment	440,550	21,996	29,277	-	433,269
Computer software	289,401	47,911	-	-	337,312
Engineering equipment	140,583	4,063	92,442	-	52,204
Communication equipment	10,795	-	-	-	10,795
Motor vehicles and trailers	5,751,467	235,889	301,013	-	5,686,343
Weed and pest control equipment	341,157	11,115	1,796	-	350,476
Heavy field equipment	6,261,427	527,913	329,773	-	6,459,567
Shop and field equipment	170,399	6,803	-	-	177,202
Infrastructure	3,228,475	436,907	-	-	3,665,382
Total accumulated depreciation	18,233,973	1,378,523	754,301	-	18,858,195
Capital assets, net	$ 25,182,839	988,935	34,765	(600,000)	23,911,896

*Adjustment is from a redistribution by Army Corps of Engineers. See Note 12.

NOTE 7. CAPITAL ASSETS (CONTINUED)

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					
Nondepreciating:					
Land	$ 457,134	-	40	-	
Construction in progress	4,181,753	1,500,000	-	-	
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

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, 2017 related to this loan:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Note Payable	$ 129,877	-	7,488	122,389	7,507

The following are changes during the year ended June 30, 2015 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

Debt service requirements for the note are as follows:

		Principal	Interest	Total
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		7,582	231	7,813
2023-2027		38,196	868	39,064
2028-2032		38,677	388	39,065
2033		7,793	19	7,812
Totals	$	122,389	2,617	125,006

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, 2017:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Compensated absences payable				
Payable within one year	$ 501,965	812,222	850,054	464,133
Payable after one year	466,341	442,516	519,099	389,758
	$ 968,306	1,254,738	1,369,153	853,891

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
	$ 1,084,736	588,556	704,986	968,306

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

NOTE 9. PERA PENSION PLAN

Plan description. *Public Employees Retirement 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 Officers, 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 Public Employees Retirement 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), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

NOTE 9. PERA PENSION PLAN (CONTINUED)

Benefits Provided –Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II - The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

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, 2016 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures of the FY 16 PERA Schedules of Employer Allocations and Pension Amounts at www.nmpera.org. The PERA coverage option that applies to the District is the Municipal General Division Plan 3.

NOTE 9. PERA PENSION PLAN (CONTINUED)

Employer Pickup. During March 2016, Governmental Accounting Standards Board (GASB) issued Statement No.82, *Pension Issues,* which clarifies that payments made by an employer to satisfy member contribution requirements should be classified as member contributions for purposes of GASB (Governmental Accounting Standards Board) Statement No. 67. Statutorily required contributions to the pension plan from the District were $768,886 and $766,736 and employer paid member benefits that were "picked up" by the employer were $801,439 and $799,900 for the years ended June 30, 2017 and 2016, respectively. See PERA's comprehensive annual financial report for contribution provided description.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2017, the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. 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. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016 or 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

For the municipal general division, at June 30, 2017 and 2016, the District reported a liability of $14,946,142 and $9,829,835 for its proportionate share of the net pension liability, respectively. At June 30, 2016, the District's proportion was 0.9355%, which was a decrease of 0.0286% from its proportion measured as of June 30, 2015.

NOTE 9. PERA PENSION PLAN (CONTINUED)

For the year ended June 30, 2017, the District recognized pension expense of $1,628,920. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 746,771	145,866
Changes of assumptions	876,416	2,485
Net difference between projected and actual earnings on pension plan investments	2,750,062	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	288,364
Employer contributions subsequent to the measurement date	768,886	-
Total	$ 5,142,135	436,715

$768,886 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:	
2018	$ 820,126
2019	820,126
2020	1,607,025
2021	689,257
2022	-

NOTE 9. PERA PENSION PLAN (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	217,735
Changes of assumptions	-	3,829
Net difference between projected and actual earnings on pension plan investments	-	31,095
Changes in proportion and differences between contributions and proportionate share of contributions	-	64,930
Employer contributions subsequent to the measurement date	766,736	-
Total	$ 766,736	317,589

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

PERA	
Actuarial valuation date	June 30, 2015
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	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll Growth	2.75% for first 10 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 10 years 2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, 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 (demographic) and July 1, 2010 through June 20, 2015 (economic)

NOTE 9. PERA PENSION PLAN (CONTINUED)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2016. These assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method 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 allocation and 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
Global Equity	43.50 %	7.39 %
Risk Reduction & Mitigation	21.50	1.79
Credit Oriented Fixed Income	15.00	5.77
Real Assets	20.00	7.35
Total	100.00 %	

Discount rate: A single discount rate of 7.48% was used to measure the total pension liability as of June 30, 2016 which was a decrease of 0.27% from the discount rate used as of June 30, 2015. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.48%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.48 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.48 percent) or 1-percentage-point higher (8.48 percent) than the current rate:

NOTE 9. PERA PENSION PLAN (CONTINUED)

	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
Municipal General Division:			
For the year ended June 30, 2017 District's proportionate share of the net pension liability	$ 22,283,368	14,946,142	8,860,277
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

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued PERA financial report available at www.nmpera.org.

Payables to the pension plan. At June 30, 2017 and 2016, the District had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2017 or 2016.

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.

Benefits Provided – The District currently reimburses 80% of the premium cost based on the medical insurance policy that each retiree purchases on the open market. Prior to July 1, 2008, the District reimbursed 60% of the premium cost. The retiree may also cover a spouse. Premium costs are not reimbursed after age 65.

Funding Policy. Costs of the plan are financed on a pay-as-you-go basis. For the year ended June 30, 2017 and 2016, the District contributed $155,558 and $151,722 under the plan, 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.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Eligibility Requirements – 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. Age and Service Credit Eligibility Requirements are described as below:

Any age with 25 or more years of service credit; or
Age 60 or older with 20 or more years of service credit; or
Age 61 or older with 17 or more years of service credit; or
Age 62 or older with 14 or more years of service credit; or
Age 63 or older with 11 or more years of service credit; or
Age 64 or older with 8 or more years of service credit; or
Age 65 with 5 or more years of service credit.

Membership. The number of employees covered by the benefit terms are as follows:

Inactive employees or beneficiaries currently receiving benefits	18	20
Inactive employees entitled to but not yet receiving benefits	-	-
Active employees	212	209
total membership	230	229

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 cost method used is the Entry Age Normal Level Percent of Pay Cost Method (EAN).

Significant assumptions and other inputs used to measure the total OPEB liability are as follows:

Inflation	2.30%
Real wage growth	Assumed to be equal to inflation
Salary increases, including inflation	2.30%
Discount rate	3.58%
Health care cost trends:	
Pre-Medicare	5.90% for 2016 decreasing to an ultimate rate of 3.94% by 2075

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Mortality rates were determined in accordance with the mortality rates set forth in the RP2016 Mortality Table for males and females.

Coverage level election rates are based on the assumption that 100% of eligible employees will elect coverage at retirement and further that 70% of those employees will cover a spouse at retirement.

Sensitivity of the District's OPEB liability to changes in the discount rate and changes in the healthcare cost rate. The following presents the District's OPEB liability calculated using each of the following rates:

- A healthcare cost trend rate that is 1 percentage point higher than the assumed healthcare cost trend rate, and a healthcare cost trend rate that is 1-percentage-point lower than the assumed healthcare cost trend rate, and
- The discount rate of 3.58 percent, as well as what the District's OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Healthcare Cost Trend			
1% Decrease		5,922,490	
Current	6,087,757	7,442,469	7,798,343
1% Increase		8,056,340	

Schedule of changes in the total OPEB liability at June 30:

	2017	2016
Beginning balance	$ 7,478,417	3,379,528
Restatement for GASBS 75 implementation	-	3,727,132
Changes for the year:		
Service cost	554,955	371,400
Interest	213,135	152,079
Change in benefit terms	-	-
Difference between expected and actual experience	-	-
Changes of assumptions or other inputs	(648,480)	-
Benefit payments	(155,558)	(151,722)
Net changes	(35,948)	4,098,889
Ending balance	$ 7,442,469	7,478,417

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

At June 30, 2017, The District reported deferred inflows and outflows from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	-
Changes of assumptions or other inputs	-	562,381
Total	$ -	562,381

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in OPEB expense as follows:

Year ended June 30:

2018	$ (86,099)
2019	(86,099)
2020	(86,099
2021	(86,099)
2022	(86,099)
Thereafter	(131,886)

Deferred inflows and outflows of resources should be recognized in OPEB expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period. The average expected remaining service life of active members for the year ended June 30, 2017 is 8.17 years. The average expected remaining service life of the inactive members is zero. Therefore, the recognition period is the weighted average of these two amounts, or 7.53 years.

GASB states OPEB expense also should be recognized in the current reporting period for (a) costs incurred by the government related to the administration of OPEB and (b) the total of nonemployer contributing entities' expenses for costs incurred related to the administration of OPEB (measured in conformity with paragraph 210) that are associated with the government. The measurement period for these costs should be the same as the measurement period applied to changes in the collective total OPEB liability for purposes of determining collective OPEB expense in conformity with paragraph 176.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The OPEB expense consists of

1. Service costs for the year
2. Interest on the total OPEB liability (TOL) using the bond rate at the beginning of the period
3. Change in the TOL due to benefit changes
4. The current year recognition of changes in the TOL due to Actual versus Expected experience
5. The current year recognition of changes in the TOL due to changes of assumptions or other inputs experience (including the change in discount rate)
6. Recognition of deferred inflows and outflows of resources from prior years.

The following table provides a breakdown of the OPEB Expense as of June 30:

	2017	2016
Service cost at end of year	$ 554,955	371,400
Interest on the total OPEB liability	213,135	152,079
Expensed portion of current-period changes of assumptions or other inputs	(86,099)	-
m		
OPEB expense	$ 681,991	523,479

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. A new biological opinion (2016 BO) was issued in December 2016. The 2016 BO no longer requires targeted river flow requirements as was the case in the 2003 BO. The 2016 BO is a performance based BO that requires certain actions to be accomplished in a five and ten-year planning horizon as well as maintain a base silvery minnow population of 1.0 Catch Per Unit Effort (CPUE) or better as measured in October of each year. Data received for October 2017 indicate that we have in excess of 20.0 CPUE this year.

NOTE 11. CONTINGENCIES (CONTINUED)

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 approved a suite of actions that the District has committed 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. The 2016 BO has yet to be challenged in federal court minimizing the potential of the District having to file cross claims to protect its interests.

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. The Bureau is now supportive of proposed legislation and is looking to streamline the process administratively given the current push in this administration to divest in federal assets that are having a negative impact on the

Treasury that included paid out Reclamation projects such as the portion of the middle Rio Grande Project that serves MRGCD.

NOTE 11. CONTINGENCIES (CONTINUED)

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.

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 contributions to this Settlement is to provide a total of $2.5 M 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 for infrastructure improvements deemed necessary prior to the specific requirements of this Settlement. The District funding will leverage $7.5 M 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.

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 and credits totaling $1,452,057 have been made over the last five fiscal years. The government will be seeking the remaining funding before the end of federal fiscal year FY 20. 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.

NOTE 12. COMMITMENTS (CONTINUED)

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.

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 16 and paid in August 2016. 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 15. The ISC contributed another $1,050,000 during FY 16. During FY 17, the ISC contributed $600,000 to the project which allowed the US Army to redistribute a like amount of District funding from this project to the Bernalillo to Belen project. The redistribution has been removed from the construction in progress asset account on the government wide statement of net position and recorded as contractual operating and maintenance services on the government wide statement of activities. 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.

NOTE 12. COMMITMENTS (CONTINUED)

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 has paid $149,000 on this project.

Rio Grande Environmental Management Plan - Sandia to Isleta. The Corps of Engineers was able to get funding authorized for up to $1.5 M federal requiring a dollar to dollar match by the local sponsor that is the District. This study actually has higher benefits to other local governments and the District is actively seeking their support to cover the up to $1.5 M in cost share. The District has paid cash or authorized refund dollars for a total of $175,000 to date in order to keep this project on task.

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 $1,537,318 and $223,782 at June 30, 2017 and 2016, 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*

		June 30:	
Fiscal Year	2017	2016	2015
Measurement Date	2016	2015	2014
District's proportion of the net pension liability	0.9355%	0.9641%	0.9750%
District's proportionate share of the net pension liability	$ 14,946,142	9,829,835	7,606,046
District's covered payroll	$ 8,028,645	8,028,757	8,028,757
District's proportionate share of the net pension liability as a percentage of its covered payroll	186.16%	122.43%	94.74%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	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*

		June 30:		
		2017	2016	2015
Contractually required employer contribution	$	768,886	766,736	766,746
Contributions in relation to the contractually required employer contribution	$	768,886	766,736	766,746
Contribution excess		-	-	-
District's covered payroll		8,051,600	8,028,645	8,028,757
Contributions as a percentage of covered payroll		9.55%	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.

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR available at http://saonm.org

Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at http://www.nmpera.org/

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
SCHEDULE OF TOTAL OPEB LIABILITY
Last 10 Fiscal Years*

		June 30:	
Fiscal Year		2017	2016
Service cost at end of year	$	554,955	371,400
Interest	$	213,135	152,079
Changes of assumptions or other inputs	$	(648,480)	-
Benefit payments	$	(155,558)	(151,722)
Net change in total OPEB liability	$	(35,948)	371,757
Total OPEB liability - beginning	$	7,478,417	7,106,660
Total OPEB liability - ending	$	7,442,469	7,478,417
Covered-employee payroll	$	8,316,934	8,343,890
Total OPEB liability as a percentage of covered-employee payroll		89.49%	89.63%

* 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.

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, mortality 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, 2017

Wells Fargo Bank NM, NA	General Fund	
Balance per books	$ 1,759,270	
Balance per bank	$ 2,112,277	$ 2,112,277
Less: FDIC coverage		250,000
Total uninsured public funds		1,862,277
50% collateral requirement		931,139
Pledged securities		1,816,073
Over (under)		$ 884,934

Collateralized by FNMA issues as follows:

Cusip #	Interest Rate	Due	Collateral Value
3132LMHH2	3.50%	10/1/1933	226,885
3138AQB96	3.00%	10/1/2026	1,343,234
3138AWR54	3.00%	11/1/2026	202,196
31417DAD5	3.00%	9/1/1942	43,758
Collateral held by Bank of New York, Mellon, NY, NY			$ 1,816,073

	Special Revenue Fund		
Bank of America	Water Bank	Fund	Total
Balance per books	$ 604,094	$ 632,266	$ 1,236,360
Balance per bank	$ 604,094	$ 632,266	$ 1,236,360
Less: FDIC coverage			250,000
Total uninsured public funds			986,360
50% collateral requirement			493,180
Pledged securities			986,360
Over (under)			$ 493,180

Collateralized by FNMA and FMAC issues as follows:

Cusip #	Interest Rate	Due	Collateral Value
31416VEC4	5.00%	5/1/2038	$ 896,636
31418QZL0	4.50%	5/1/2034	63,463
311419AVM6	6.00%	12/1/2037	16,694
Six similar securities			9,567
Collateral held by Bank of New York Mellon, NY, NY.			$ 986,360

Reconciliation to financial statements:	
Bank of America	$ 1,236,360
Wells Fargo Bank, NM	1,759,270
Cash on hand	900
Total Cash	$ 2,996,530

OTHER REPORT

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Service plus value, it all adds up.

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. Wayne Johnson, 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, 2017 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 12, 2017.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002.

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 12, 2017

STATE COMPLIANCE SECTION

A. PRIOR YEAR AUDIT FINDINGS

2015-002 Procurement (Other Non-Compliance)	Modified and Repeated

B. CURRENT YEAR AUDIT FINDINGS

2017-001 [2015-002]	Procurement (Other Non-Compliance)
2017-002	Information Technology General Controls (Findings that do not Rise to the Level of a Significant Deficiency)

C. FINDINGS AND RESPONSES – COMPLIANCE AND OTHER MATTERS

2017-001 [2015-002] PROCUREMENT (OTHER NON-COMPLIANCE)

CONDITION
During internal control test work over cash disbursements and procurement, it was noted that for one of the twenty five 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.

C. FINDINGS AND RESPONSES – COMPLIANCE AND OTHER MATTERS (CONTINUED)

2017-002 INFORMATION TECHNOLOGY GENERAL CONTROLS (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY)

CONDITION
During our review of information technology (IT) general controls that are significant to financial reporting, we noted the following:

- There is no requirement to change passwords periodically.
- Password minimum requirements are considered weak.
- There is no policy in place to disable accounts for terminated employees.

CRITERIA
Information Technology, including systems and infrastructure, are essential and integral to the efficiency of the District's operations. IT internal controls are essential to maintain the confidentiality, integrity, and availability of data.

EFFECT
Without strong internal controls over the District's IT infrastructure, there is the potential for the confidentiality, integrity, and/or availability of data to be compromised. This compromise could be by an internal user of the system, by an external source (hacker), and could be intentional or unintentional.

CAUSE
There is a lack of formal IT policies in place, and current procedures are deemed to lack elements of a strong internal control system over IT.

RECOMMENDATION
Management should establish a committee to evaluate all IT activities. At a minimum, management should establish formal policies that require passwords are changed on a regular basis, minimum password criteria is strong, and a procedure is established to disable accounts for terminated employees.

MANAGEMENT RESPONSE
Management will follow this recommendation and has already procured outside resources to assist the District's under staffed IT section currently consisting of one employee. Management will take the recommendations of the outside consulting firms of ABBA IT Services and RiskSense, Inc. to do a number of tasks to 1) assist the District's IT staff to perform routine services for all users; 2) analyze the IT structure to evaluate the District's system relative to current state-of-the-art IT architecture; and 3) perform security analyses for assuring high levels of protection against all manner of system invasion and/or sabotage. Password management has already come to fore as a top priority to be addressed and an automated method is being developed which will require periodic changing of passwords.

Management will integrate all recommendations into our capital improvement plan in order to achieve the goal of having a high quality/highly secure IT network in place during FY 18 and include necessary improvements in its five-year capital improvement plan.

STATE OF NEW MEXICO
MIDDLE RIO GRANDE CONSERVANCY DISTRICT
EXIT CONFERENCE
Year Ended June 30, 2017

A. EXIT CONFERENCE

An exit conference was held on December 12, 2017, 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.