

**STATE OF NEW
MEXICO
COMMISSIONER OF
PUBLIC LANDS
FINANCIAL STATEMENTS**

JUNE 30, 2009

Moss Adams LLP
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TABLE OF CONTENTS

STATE OF NEW MEXICO COMMISSIONER OF PUBLIC LANDS

INTRODUCTORY SECTION

Official Roster	1
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FINANCIAL SECTION

Independent Auditors' Report	2
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Management's Discussion and Analysis	4
--	---

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Assets	11
-------------------------------	----

Statement of Activities	13
-------------------------------	----

Fund Financial Statements

Governmental Funds Financial Statements

Balance Sheet	14
---------------------	----

Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Assets	15
--	----

Statement of Revenues, Expenditures, and Changes

in Fund Balances-Governmental Funds	16
---	----

TABLE OF CONTENTS

STATE OF NEW MEXICO COMMISSIONER OF PUBLIC LANDS

Fund Financial Statements (Continued)

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances with the Statement of Activities	17
Statement of Revenues and Expenditures Budget and Actual - General Fund	18
Statement of Fiduciary Assets and Liabilities – Agency Funds	19
Notes to Financial Statements	20

SUPPLEMENTARY INFORMATION

Individual Fund Statements

Statement of Revenues and Expenditures Budget and Actual – Capital Projects Fund	41
Combining Schedule of Fiduciary Assets and Liabilities.....	42
Combining Statement of Changes in Assets and Liabilities - Agency Funds.....	43

TABLE OF CONTENTS

STATE OF NEW MEXICO COMMISSIONER OF PUBLIC LANDS

OTHER SUPPLEMENTARY INFORMATION

Schedule of Fiduciary Assets and Liabilities-All Agency Funds	
Liabilities	
Sales Expense Fund	44
Land Suspense Fund	45
Oil and Gas Royalty Fund-Payment Fund	46
Royalty Advance Payment Fund	47
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	48
Schedule of Prior Year Audit Findings	51
Schedule of Finding and Responses	52
Exit Conference	61

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS

OFFICIAL ROSTER

JUNE 30, 2009

Name	Title
Patrick H. Lyons	Commissioner of Public Lands
Dennis Garcia	Deputy Commissioner of Public Lands
Assistant Commissioners of Public Lands:	
Larry Kehoe	Surface Resources
Robert Stranhan	General Counsel
Kristin Haase	Communications
Dallas Rippy	Commercial Resources
Jerry King	Special Projects
John Bemis	Oil, Gas and Mineral Resources
Della Gutierrez	Administrative Services
Division Directors:	
Jami Bailey	Oil, Gas and Minerals Division
James Jackson	Surface Resources Division
Jim Norwick	Field Operations Division
Peggy Walton	Commercial Leasing Division
Kurt McFall	Royalty Management Division
Lucille Sisneros	Records Management Division
Margaret Sena	Administrative Services Division

Independent Auditors' Report

Mr. Patrick Lyons
State of New Mexico
Commissioner of Public Lands
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying basic financial statements of the governmental activities, each major fund and budgetary comparison of the State of New Mexico Commissioner of Public Lands (State Land Office) as of and for the year ended June 30, 2009, which collectively comprise the State Land Office's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the capital project fund and the individual fiduciary fund financial statements presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2009. These financial statements are the responsibility of the State Land Office's management. 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. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Land Office's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the State Land Office are intended to present the financial position, and the changes in financial position, where applicable, of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the State Land Office. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2009, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Mr. Patrick Lyons
State of New Mexico
Commissioner of Public Lands
and
Mr. Hector H. Balderas
New Mexico State Auditor

fund of the State Land Office, as of June 30, 2009, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary funds of the State Land Office, as of June 30, 2009, and the respective changes in the financial position and the budgetary comparison of Capital Project Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2009, on our consideration of the State Land Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 4 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparison for the capital projects fund of the State Land Office. The additional schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico
December 8, 2009

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2009**

The Management's Discussion and Analysis (MD&A) provides in layman's terms the past and current position of the Commissioner of Public Lands (State Land Office) financial condition. Further, the discussion and analysis of the State Land Office financial performance introduces the basic financial statements and provides an analytical overview of the State Land Office's financial activities for the fiscal year ended June 30, 2009. The report provides an analysis of the State Land Office's overall financial position and results of operations, information on changes in the State Land Office's financial position, and a discussion of significant changes in assets and liabilities.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the State Land Office's financial statements.

Financial Highlights

The Commissioner of Public Lands is charged with generating and maximizing revenue from state trust lands in order to support public education and other beneficiary institutions, while simultaneously striving to protect, conserve and maintain the lands so they may be used by future generations. The Commissioner of Public Lands is an elected official pursuant to the New Mexico Constitution. The Land Maintenance Fund is the general operation fund of the State Land Office and it is used to account for the general operations of the State Land Office in carrying out its specific functions. Sources of revenue are provided by the transfer of lease and rental income from the Land Suspense Fund.

For 2009, the state trust lands realized total revenues of \$536.5 million, with \$480.6 million in revenue coming from nonrenewable sources deposited into Land Grant Permanent Fund (LGPF) at the New Mexico State Investment Council. Of these total distributions, direct distributions to our beneficiaries from rentals and other renewable sources totaled \$45.2 million. Total distribution from LGPF totaled \$521.5 million for a grand total distribution to our beneficiaries of \$566.7 million for fiscal year 2009. The primary beneficiary—Public Schools received \$470.0 million.

Overhead as a percentage of total revenues remains at a low 2.5 percent.

Department Highlights

Revenues from bonuses paid for oil and natural gas leases totaled \$33.7 million, \$11 million less than in fiscal year 2008, but still strong. The annual average dollar-per-acre for leases in the regular sale areas was \$266.80, compared with \$347.89 the previous fiscal year. Even so, this year's average was still the fifth highest over the last 25 years.

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2009**

The State Land Office has leased exactly 115,721 acres of trust lands for wind energy power plant development. The combined earning power of the six wind power plants currently under lease approaches \$55 million over the course of their prospective 35-year terms.

The State Land Office continues to aggressively pursue other energy companies to locate in New Mexico and right now the State Land Office is negotiating with nine other development companies that have expressed an interest in the State's wind energy generation portfolio – representing an additional 400,760 acres of submitted applications for wind power plant development.

The initiation and planning phase of the ONGARD modernization project continued in fiscal year 2009 and The State Land Office contributed a third, or \$333,000, from the Land Maintenance Fund. This was in support of obtaining professional services from POD/IBM and Expersolve to perform a function point analysis and to evaluate options to convert ONGARD to a client server environment.

Continued progress and success in configuring, testing, documenting and implementing the State Land Office remote disaster recovery site in Albuquerque were made during fiscal year 2009. The State Land Office implemented the necessary equipment and software to now asynchronously mirror critical production data and operating system configuration information from the main data center in Santa Fe to a remote data center in Albuquerque. This solution supplements the traditional magnetic tape technology and enables the State Land Office to maintain mirrored copies of all its data in the two locations. In addition to mirrored data being available, a disaster recovery appliance, called Forge Platespin, was implemented which converts physical system configuration information to remote virtual machines which enable the State Land Office operating system and application environments to be recovered at the same time.

The Records Management Division and IT worked together in fiscal year 2009 and replaced a fourteen year old records management tracking system with a new commercial-off-the-shelf product called FileTrail.

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2009**

USING THE ANNUAL FINANCIAL REPORT

The financial report includes the sections described below.

Management Discussion and Analysis

This section includes information on the use of the annual report, as well as management's analysis of the financial position and results of operations for the State Land Office.

Government-wide Financial Statements

Government-wide statements report information about the State Land Office as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets, liabilities, and net assets.

The government-wide financial statements also include the Statement of Activities. This is focused on the cost of various activities that are provided by the State Land Office's general and other revenues. This is intended to summarize and simplify the users' analysis of the cost of services. This reflects the State Land Office's basic service of collecting and optimizing revenue for our beneficiaries. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

	Government Activities FY 2009	Government Activities FY 2008	Total Percentage Change
Current and other assets	\$ 4,560,847	7,584,968	-39.9%
Capital assets less accumulated depreciation	<u>1,863,860</u>	<u>2,260,130</u>	-17.5%
Total assets	<u>\$ 6,424,707</u>	<u>9,845,098</u>	-34.7%
Liabilities	<u>\$ 2,935,002</u>	5,918,743	-50.4%
Net assets			
Investments in capital assets	\$ 1,863,860	2,260,130	-17.5%
Restricted – ONGARD modernization	333,333	333,333	0.0%
Unrestricted	<u>1,292,512</u>	<u>1,332,892</u>	-3.0%
Total net assets	<u>\$ 3,489,705</u>	<u>3,926,355</u>	-11.1%

Changes in net assets: The State Land Office's change in net assets for fiscal year 2009 was a decrease of \$436,650.

For more detailed information see the Statement of Net Assets.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Activities

	Government Activities	Government Activities	Total Percentage Change
	FY 2009	FY 2008	
Expenses			
General government	\$ (13,574,036)	(13,483,586)	-7%
Program revenues	14,230,584	13,142,618	-7.6%
Change in net assets			
net (expense) revenue	656,548	(340,968)	-48.1%
General revenues and (expenses)			
Transfers in	19,832	29,994	-33.9%
Transfers out	(502,700)	(517,100)	-2.8%
Other income	1,657	11,289	-85.3%
Unrestricted investment earnings	1,148,817	5,967,844	-80.7%
Reapportionable to other beneficiaries	(1,777,084)	(4,815,371)	-63.1%
Gain on sale of capital assets	16,280	19,123	-14.9%
Total general revenues and transfers	(1,093,198)	695,779	-57.1%
Change in net assets	(436,650)	354,811	-23.1%
Net assets, beginning	3,926,355	3,571,544	9.0%
Net assets, end	\$ 3,489,705	3,926,355	-11.1%

**STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2009**

Fund Financial Statements

Fund financial statements distinguish between governmental and fiduciary funds. These statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The emphasis of the fund financial statements is on major funds rather than fund type.

The Governmental Major Fund presentation is done on a sources and uses of liquid resources basis and this is the manner in which the financial plan (budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the financial statement allows for the demonstration of sources and uses and compliance with budget.

The fund financial statements also allow the government to address its agency funds. While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. As such, these assets are not presented as part of the government-wide financial statements.

Capital Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Land	\$ 252,152	252,152
Buildings and library	3,835,036	3,835,036
Furniture, fixtures, and equipment	718,439	744,106
Data processing	1,921,223	1,954,164
Automobiles	<u>682,914</u>	<u>713,119</u>
Totals	7,409,764	7,498,577
Accumulated depreciation	<u>(5,545,904)</u>	<u>(5,238,447)</u>
Capital assets, net	<u>\$ 1,863,860</u>	<u>2,260,130</u>

The State Land Office does not own any infrastructure assets such as roads, bridges, etc.

Budgetary Comparisons

GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented. The budgetary comparison schedules should present both the original and final appropriated budgets for the reporting period as well as the actual inputs, outputs and balances stated on the government's budgetary basis.

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2009**

As required by the Office of the State Auditor under 2 NMAC 2.2, the Statements of Revenues and Expenditures – Budget and Actual are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

The General Fund is the operating fund for the State Land Office. The balance remaining reflects additional revenues collected. The State Land Office is a non-general fund agency and reserves revenue needed to support State Land Office operations. The variance will revert to the beneficiaries per NM Statutes 19-1-13 and balance remaining in the State Lands Maintenance Fund on June 30 of each year shall be apportioned back to the beneficiaries. All other agency funds are fiduciary funds and serve as flow through accounts.

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the State Land Office. The Land Maintenance Fund is the revenue source for the State Land Office's budget. All adjustments to the budget require approval by the Budget Division of the Department of Finance and Administration with review by the Legislative Finance Committee. Over the course of the year, State Land Office may adjust its budget as authorized in the General Appropriations Act (GAA) or through other acts of the legislature.

There were no changes between the original and final operating budget for Fiscal Year 2009.

ANTICIPATED CHANGES

Trust revenue from oil and gas, both from lease sale bonuses and royalties, reflected the volatility of the markets during fiscal year 2009. Crude oil prices, as high as \$131 per barrel in June 2008, dropped to the \$60 range, ending the fiscal year at \$68.50 per barrel. Natural gas prices, with a high near \$12.63 per 1,000 cubic feet in the previous fiscal year, also plummeted and ended the year at \$4.18 per 1,000 cubic feet. Nevertheless, the markets remained strong for lease bonuses, averaging \$267 per acre leased in known producing areas.

The State Legislature has appropriated a flat budget of \$13,966,000 to the State Land Office for fiscal year 2010.

FINANCIAL CONTACT

The State Land Office's financial statements are designed to present users with the general overview of the State Land Office's finances and to demonstrate the department's accountability. If you have questions about the report or need additional financial information contact the State Land Office's Assistant Commissioner of Administrative Services at 310 Old Santa Fe Trail, PO Box 1148, Santa Fe, New Mexico 87501-1148.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF NET ASSETS
 June 30, 2009

	Governmental Activities
ASSETS	
Current assets	
Interest in State General Fund Investment Pool	\$ 4,511,831
Petty cash	400
Interest receivable	286
Supplies inventory	15,293
Due from external parties	<u>33,037</u>
Total current assets	<u>4,560,847</u>
Capital assets	
Land	252,152
Buildings	3,835,036
Furniture, fixtures and equipment	718,439
Data processing	1,921,223
Automobiles	682,914
Accumulated depreciation	<u>(5,545,904)</u>
Total capital assets, net of accumulated depreciation	<u>1,863,860</u>
Total assets	<u><u>\$ 6,424,707</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF NET ASSETS (CONTINUED)
 June 30, 2009

Governmental
 Activities

LIABILITIES AND NET ASSETS

Current Liabilities

Vouchers payable	\$ 243,778
Accrued payroll and payroll liabilities	469,391
Compensated absences payable	444,749
Due to beneficiaries	1,777,084

Total current liabilities	<u>2,935,002</u>
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Net Assets

Invested in capital assets	1,863,860
Restricted for ONGARD modernization	333,333
Unrestricted	1,292,512

Total net assets	<u>3,489,705</u>
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Total liabilities and net assets	<u><u>\$ 6,424,707</u></u>
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See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2009

	Governmental Activities
Expenses	
General government	\$ 13,574,036
Program revenues	
Charges for services	14,230,584
Net revenue (expense)	<u>656,548</u>
General revenues and (expenses)	
Gain on sale of capital assets	16,280
Other income	1,657
Transfer in	19,832
Transfers out	(502,700)
Unrestricted investment earnings	1,148,817
Reapportionable to other beneficiaries	<u>(1,777,084)</u>
Total general revenues and transfers	<u>(1,093,198)</u>
Change in net assets	<u>(436,650)</u>
Net assets, beginning of year	<u>3,926,355</u>
Net assets, ending of year	<u><u>\$ 3,489,705</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2009

	General Fund	Capital Projects Fund	Total
ASSETS			
Interest in State General Fund Investment Pool	\$ 3,302,269	1,209,562	4,511,831
Petty Cash	400	-	400
Due from State General Fund	286	-	286
Supplies inventory	15,293	-	15,293
Due from other funds	33,037	-	33,037
	<hr/>		
Total assets	\$ 3,351,285	1,209,562	4,560,847
	<hr/> <hr/>		
LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable and accounts payable	\$ 240,431	3,347	243,778
Accrued payroll and payroll liabilities	469,391	-	469,391
Due to beneficiaries	1,777,084	-	1,777,084
	<hr/>		
Total liabilities	2,486,906	3,347	2,490,253
	<hr/>		
Fund Balances:			
Reserved for			
ONGARD modernization	333,333	-	333,333
Supplies and petty cash	15,693	-	15,693
Refunds	500,000	-	500,000
Capital projects	-	1,206,215	1,206,215
Unreserved	15,353	-	15,353
	<hr/>		
Total fund balances	864,379	1,206,215	2,070,594
	<hr/>		
Total liabilities and fund balances	\$ 3,351,285	1,209,562	4,560,847
	<hr/> <hr/>		

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 June 30, 2009

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balances - Governmental Funds
(Governmental Funds Balance Sheet) \$ 2,070,594

Amounts reported for governmental activities in the Statement of Net Assets
 are different because

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. These
 assets consist of

Land	\$ 252,152	
Buildings and library	3,835,036	
Furniture, fixtures and equipment	718,439	
Data processing	1,921,223	
Automobiles	682,914	
Accumulated depreciation	<u>(5,545,904)</u>	
Total capital assets, net of accumulated depreciation		1,863,860

Some liabilities are not due and payable in the current period and
 therefore are not reported in the funds. Long-term liabilities at
 year-end consist of compensated absences (444,749)

Net Assets of Governmental Activities (Statement of Net Assets) \$ 3,489,705

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ending June 30, 2009

	General Fund	Capital Projects Fund	Total
Revenues			
Other state funds	\$ 470,553	-	470,553
Rental income	13,760,031	-	13,760,031
Interest income	1,148,817	-	1,148,817
Other income	32,888	-	32,888
Total revenues	<u>15,412,289</u>	<u>-</u>	<u>15,412,289</u>
Expenditures, current			
Personal services	7,432,163	-	7,432,163
Employee benefits	2,946,842	-	2,946,842
In-state travel	203,969	-	203,969
Maintenance and repairs	199,510	-	199,510
Supplies	831,986	-	831,986
Contractual services	13,555	-	13,555
Operating costs	1,340,230	3,347	1,343,577
Out-of-state travel	30,241	-	30,241
Capital outlay	160,306	-	160,306
Total expenditures	<u>13,158,802</u>	<u>3,347</u>	<u>13,162,149</u>
Excess (deficiency) revenues over expenditures	<u>2,253,487</u>	<u>(3,347)</u>	<u>2,250,140</u>
Other financing sources (uses)			
Transfer in	19,832	-	19,832
Transfer out	(502,700)	-	(502,700)
Reapportionable to other beneficiaries	(1,777,084)	-	(1,777,084)
Total other financing uses	<u>(2,259,952)</u>	<u>-</u>	<u>(2,259,952)</u>
Net change in fund balance	(6,465)	(3,347)	(9,812)
Fund balance, beginning of year	<u>870,844</u>	<u>1,209,562</u>	<u>2,080,406</u>
Fund balance, end of year	<u>\$ 864,379</u>	<u>1,206,215</u>	<u>2,070,594</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2009

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in net assets - Governmental Funds (Statement of Activities)		\$	(436,650)
<p>In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditure for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The increase in the liability for the year is</p>			
			30,568
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are</p>			
Capital outlay	\$	(160,306)	
Depreciation expense		541,625	
Excess of Depreciation expense over Capital Outlay		<u> </u>	381,319
<p>Governmental funds do not report (gain) loss on disposal of capital assets. However, (gain) loss on disposal is reported on the Statement of Activities. In the current period, the (gain) loss on disposal of capital assets is</p>			
			(16,280)
<p>Governmental funds report the receipt of cash from the sale of assets as revenue. However, this receipt of cash is not reported on the Statement of Activities</p>			
			<u> </u> 31,231
Change in fund balances - Governmental Funds (Statement of Revenues, Expenditures and Changes in Fund Balance)		\$	<u><u> </u></u> (9,812)

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL -
 GENERAL FUND
 Year Ended June 30, 2009

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Other state funds	\$ 541,700	541,700	470,553	(71,147)
Rental income	9,864,900	9,864,900	13,760,031	3,895,131
Interest income	3,911,700	3,911,700	1,148,817	(2,762,883)
Miscellaneous revenue	147,900	147,900	32,888	(115,012)
Total	14,466,200	14,466,200	15,412,289	946,089
Expenditures				
General government				
Personal services & benefits	10,500,900	10,500,900	10,379,005	121,895
Contractual services	1,258,200	1,102,200	812,552	289,648
Other	2,204,400	2,360,400	1,967,245	393,155
Other financial uses	502,700	502,700	502,700	-
Total budgeted expenditures	14,466,200	14,466,200	13,661,502	804,698
Transfers in	-	-	(19,832)	19,832
Reapportionment	-	-	1,777,084	(1,777,084)
Total expenditures	14,466,200	14,466,200	15,418,754	(952,554)
Excess (deficiency) of revenues over expenditures	\$ -	-	(6,465)	(6,465)

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
 June 30, 2009

Agency
 Funds

ASSETS

Interest in State General Fund Investment Pool	\$	99,718,243
Investments		10,482,715
Receivables		
Interest		17,884
Royalties		52,732,178
Interest assessments		3,202,052
Allowance for uncollectible accounts		(3,202,052)
		<hr/>
Total assets	\$	162,951,020
		<hr/> <hr/>

LIABILITIES

Vouchers payable		2,123
Due to external parties		33,037
Due to beneficiaries		
Royalties and rentals		153,226,109
Deposits held in trust		9,689,751
		<hr/>
Total liabilities	\$	162,951,020
		<hr/> <hr/>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The State of New Mexico Commissioner of Public Lands (State Land Office) was created by the Constitution of New Mexico, Article XIII, Sections 1 and 2; Sections 19-1-1 through 19-15-10 and others in NMSA 1978. The Commissioner of Public Lands is elected by the citizens of the State of New Mexico.

The Constitution and Enabling Act combine to create a very specific trust document which granted lands to the State Land Office and designate the Commissioner of Public Lands as the trustee. As a result, the State Land Office controls approximately 8.5 million acres of surface rights and approximately 13.0 million acres of mineral rights in the State of New Mexico. Trust assets are sold, leased, controlled and managed by the Commissioner and staff to develop income for specified beneficiaries. The Commissioner and staff plan and preserve the assets and resources of the trust. Revenues are earned for the beneficiaries of the trust by leasing lands for grazing, agriculture, commercial use, oil and gas drilling, mining, and other surface and subsurface activities. In addition to money earned from rental of State Trust Lands, the State Land Office receives royalties earned from the extraction and sale of minerals, as well as principal and interest from land sales. Income from land sales and royalties is deposited into the Permanent Fund. The corpus of the Permanent Fund is invested, not spent, and the earned income is distributed to the proper beneficiaries.

Financial Reporting Entity. The State Land Office is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State.

All of the programs that are administered and/or controlled by the State Land Office have been included.

No entities were noted that should be considered component units of the State Land Office.

The accounting policies of the State Land Office conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

Basic Financial Statements – The basic financial statements include both government-wide (based on the State Land Office as a whole) and fund financial statements. The reporting model focus is on either the State Land Office as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis by column, and is reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. Program revenues in the Statement of Activities consist of lease and rental income from lands held by the State Land Office. The State Land Office includes only one function (general government). Inter-fund balances have been eliminated in the government-wide financial statements.

Classification of Net Assets. The State Land Office's net assets are classified as follows:

Invested in Capital Assets: This represents the State Land Office's total investment in capital assets. The State Land Office does not have any related debt.

Restricted for ONGARD Modernization: The restriction was created by the Laws of 2008, Chapter 3, Section 7 to provide funds to begin the replacement of the Oil and Natural Gas Accounting and Reporting Database (ONGARD).

Unrestricted Net Assets: Unrestricted net assets represent resources derived primarily from the transfer of lease and rental income from the State Land Office's agency fund (the Land Suspense Fund). These resources are used for transactions relating to the general operations of the State Land Office and may be used by the State Land Office (as per the annual approved budget) to meet current expenses for any purpose.

The net cost (by function) is normally covered by general revenues (inter-governmental revenues, interest income, etc). The State Land Office does not currently employ indirect cost allocation systems.

This government-wide focus is more on the sustainability of the State Land Office as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major fund in the governmental category.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate the State Land Office's actual financial activity in relation to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

The State Land Office's fiduciary fund (agency fund) is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the State Land Office first uses restricted resources then unrestricted resources.

Fund Accounting. The accounts of the State Land Office are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The following fund types are used by the State Land Office:

A. Governmental Funds

General Fund. The Land Maintenance Fund (SHARE Fund number 09800) is the general operating fund of the State Land Office and it is used to account for the general operations of the State Land Office in carrying out its specific functions. Sources of revenue are provided by the transfer of lease and rental income from the Land Suspense Fund. The fund does not revert to the State General Fund per Section 19-1-1 NMSA 1978.

Capital Projects Funds. Capital projects funds are used to account for the financial resources to be used for capital projects. The capital projects fund is:

Building Renovation Fund - The Building Renovations Fund (SHARE Fund number 87500) is used to account for the financial resources to be used for the renovations, repairs, modifications, and improvements at the Edward J. Lopez Building. The fund does not revert to the State General Fund per Section 19-1-1 NMSA 1978.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Fiduciary Funds

Agency Funds. Agency funds are used to account for assets held by the State Land Office as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The agency funds of the State Land Office are:

Sales Expense Fund - The Sales Expense Fund (SHARE Fund number 77600) is an imprest clearing account for the purpose of paying, as required by State law, expenses of land sales. When a sale is completed, the related sales expense is initially collected by the Land Suspense Fund, and then reimbursed to the Sales Expense Fund.

Land Suspense Fund - The Land Suspense Fund (SHARE Fund number 77700) is used as a collection and clearing account for State Land Office receipts. Lease and rental income, interest on land contracts, filing fees, copy fees, interest on cash deposits, and interest assessments are "participating income". Royalty income, land contract payments, reimbursed sales expense are "non-participating income".

Participating income is made available for operating expenses. The excess of receipts over operating expenses is then transferred to the beneficiaries. Royalty income and land contract payments are transferred to the State Permanent Fund. Sales expense income is recorded in the Sales Expense Fund. Filing fees, copy fees, and interest on cash deposits are transferred to the Land Maintenance Fund.

Undistributed receipts included in "due to beneficiaries" on the balance sheet are principally comprised of monies received prior to the authorized distribution dates. Any distribution would be made after all operating costs are defrayed and a determination of payment is made.

Oil and Gas Royalty Fund - The Oil and Gas Royalty Fund (SHARE Fund number 26400) is a collection and clearing account for royalties. Distributable royalties are transferred to the State Permanent Fund each month. Undistributed receipts included in "Due to beneficiaries" in the balance sheet represent royalty payments received prior to the allowable date of distribution.

Royalty Advance Payment Fund - The Royalty Advance Payment Fund (SHARE Fund number 51400) is a collection account for advance royalty payments made in accordance with Sections 19-10-56 through 19-10-60 NMSA 1978 and related investment income on behalf of beneficiaries.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Accounting. The Government-wide Financial Statements and the Fiduciary Fund Financial Statements are presented on an accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Modified Accrual. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State Land Office considers revenues to be available if they are collected within sixty days during the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

The General Appropriation Act of 2004 established the modified accrual basis of accounting for governmental funds in accordance with the Manual of Model Accounting Practices issued by the Department of Finance and Administration as the budgetary basis of accounting for the State of New Mexico. The change in policy resulted in the recognition of budgetary control from a fiscal year to an appropriation period. Under the budgetary basis, prior year encumbrances allowed for money to be expended in one fiscal year, while charging the expenditure to another year's budget. Under the new policy, as long as the appropriation period has not lapsed, and a budget has been approved by the Department of Finance and Administration, an encumbrance can be charged against that budget. However, when the appropriation period has lapsed, so does the authority for the budget.

In applying the "susceptible to accrual" concept to inter-governmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Budgetary Data. The State Legislature makes annual appropriations to the State Land Office. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the General Fund and the Capital Projects Fund. Expenditures may not legally exceed appropriations at the object expenditure classification level. Budget amendments require approval by the State's Budget Division of

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

the Department of Finance and Administration. Unexpended and unencumbered amounts in the General Fund lapse at year-end and are reapportioned to beneficiaries in the same ratio as distributions to beneficiaries from the Land Suspense Fund per Section 19-1-13 NMSA 1978.

The budgetary legal authorization to incur obligations is on a basis that differs from the basis of accounting required by generally accepted accounting principles (GAAP) for the General Fund, Special Revenue Fund and the Capital Projects Fund. The budget is prepared on a modified accrual basis and may include encumbrances for multiple year appropriations in fund expenditures (commitments for the expenditure of monies relating to unperformed contracts or orders for goods and services). GAAP includes accrued expenditures but does not include encumbrances in fund expenditures. Per the General Appropriation Act, Laws of 2006, Chapter 107, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for the accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

The State Land Office is required to submit a budget report for the General Fund, Special Revenue Fund and the Capital Projects Fund to the Department of Finance and Administration and the Legislative Finance Committee by September 1 of each year. The report submitted by the State Land Office also details revenues and expenditures or expenses for the preceding year.

The Department of Finance and Administration makes recommendations and adjustments to the appropriation request which becomes the Governor's proposal to the Legislature. The Legislative Finance Committee holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

The recommended appropriation proposals from both the Department of Finance and Administration and the Legislative Finance Committee are presented to the Legislature for approval of the final budget plan.

All subsequent budget transfers and increases must be authorized by the Director of the State Budget Control Division. The budget has been amended for the year ended June 30, 2009.

Legal budget control for expenditures and encumbrances is by appropriation unit.

Cash and Investments. Cash is deposited by the State Land Office into its accounts with the State Treasurer. The balances of these accounts are then pooled and invested by the State Treasurer.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Funds in the Royalty Advance Payment Fund are invested in the New Mexico State Investment Council Equity (Large Cap Active) and Fixed (Core Bonds) Income Investments. Investments in these external investment pools are carried at market value.

The Constitution and statutes of the State of New Mexico place certain restrictions on investments which may be held by the Royalty Advance Payment Fund. The purpose of these restrictions is to minimize risk within the portfolio.

The State Land Office adopted Government Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement 3*. Per GASB 40, "the Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, foreign currency risk, and also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates as well as deposit and investment policies related to the risks identified in the Statement."

"GASB Statement 3 disclosures generally referred to as category 1 and category 2 deposits and investments are eliminated." "However, disclosure of authorized investments or the requirements for reporting certain repurchase agreements and reverse repurchase agreements are still required."

Supplies Inventory. Supplies inventory is stated at cost using the first-in, first-out method. Inventory consists of office supplies and materials held for consumption and are recorded as expenditures when purchased. The reported fund balance reservation indicates that inventory does not represent available spendable resources of the General Fund.

Accrued Leave. Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay up to 600 hours is forfeited and vacation is limited to 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semi-annually to qualified employees at a rate equal to 50% of their hourly rate, not to exceed 120 hours each semi-annual period. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. The compensated absences payable has been valued using current pay levels. The amount that would normally be liquidated with expendable available financial resources has been recorded as a current liability in the appropriate funds.

Interfund Transactions. During the course of normal operations, the State Land Office has transactions between funds. The accompanying financial statements reflect such transactions as operating transfers.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Capital Assets. Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Effective July 1, 2006 assets are capitalized by the State Land Office if the cost is more than \$5,000. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

Land improvements	20 years
Buildings & building improvements	20 – 40 years
Furniture and equipment	3 – 10 years
Data processing	6 years
Automobiles	5 years

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management. The State Land Office, as a "State Agency" defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. The State Land Office pays annual premiums to the Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverages to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverages for State of New Mexico employees.

At June 30, 2009, the State Land Office had no claims for which the Risk Management Division has returned as not covered that would become the responsibility of the State Land Office.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reservations and Designations. Reservations of fund balance are created to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditure. Specific reservations of fund balance accounts are summarized below:

Reserved for Supplies. This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department expects to use the resources within the next budgetary period.

Reserved for Petty Cash. This reserve was created for imprest petty cash funds.

Reserved for Refunds. This reserve was created for refunds, per NMSA 1978 Chapter 19 Public Lands, Section 19-7-62.

Reserved for ONGARD Modernization. This reserve was created to begin replacement of the Oil and Natural Gas Accounting and Reporting Database (ONGARD) with commercial off the shelf solutions, per Laws of 2008, Chapter 3, Section 7.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents Custodial Credit Risk.

The interest in State General Fund Investment Pool is in accounts that are pooled with other state funds on deposit in the State Treasurer's name at commercial banking and other financial institutions. Information regarding the adequacy of collateralization of deposits is not known to individual agencies and is the responsibility of the State Treasurer. To obtain pledged collateral, investment risk, and insurance coverage information for the Agency's State Treasurer deposits, a copy of separately issued financial statements can be obtained from the State Treasurer's Office.

In accordance with Chapter 6, Article 10 NMSA 1978, annotated, the Agency is required to deposit its funds with the New Mexico State Treasurer or, in special circumstances, in bank accounts approved by the New Mexico State Treasurer. The Agency can withdraw its funds from the State Treasurer as needed and therefore considers them to be cash equivalents. All earnings on deposits are retained by the State General Fund; therefore from the Agency's perspective, the cash balances are non-interest bearing and stated at cost.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

During the year ended June 30, 2009, the cash balance on deposit with Lea County Bank did not exceed the Federal Deposit Insurance Corporation (FDIC) insured coverage of \$250,000. There were no amounts outstanding at Lea County Bank at June 30, 2009. There are no reconciling items between bank and book.

As of June 30, 2009, cash consisted of the following:

	Account Number	Amount
General Fund		
On deposit with the State Treasurer - Land Maintenance Fund	539-09800	\$ 3,302,269
Petty cash	N/A	400
Capital Projects Fund		
On deposit with the State Treasurer -	539-87500	1,209,562
Agency Funds		
On deposit with the State Treasurer - Oil and Gas Royalty Fund	539-26400	84,920,699
Sales Expense Fund	539-77600	15,351
Land Suspense Fund	539-77700	13,630,596
Royalty Advance Payment Fund	539-51400	1,151,597
		<u>99,718,243</u>
		<u>\$ 104,230,474</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Differences between STO/Bank balances and reconciled cash balances are as follows:

	Cash Balance Per STO/Bank	Deposits In Transit/ Refunds Not Recorded	Cash Balance Per Financial Statements
General Fund	\$ 3,302,269	-	3,302,269
Capital Projects Fund			
Building Renovations	1,209,562	-	1,209,562
Agency Funds:			
Sales Expense Fund	15,351	-	15,351
Land Suspense Fund	13,630,596	-	13,630,596
Oil & Gas Royalty	84,920,699	-	84,920,699
Royalty Advance Payments	<u>1,151,597</u>	-	1,151,597
	<u>\$ 104,230,074</u>	-	
General Fund - petty cash			<u>400</u>
			<u>\$104,230,474</u>

NOTE 3. INVESTMENTS

Investments in the Royalty Advance Payment Fund are held in the Equity and Fixed Income Pooled Investment Funds of the New Mexico State Investment Council. The market value of the units held in the Investment Funds is \$10,482,715. This represents the Royalty Advance Payment Fund's proportionate share of the quoted market prices of the securities held in Investment Funds. The Funds invest in equity securities, U.S. Treasury and Federal Agency notes, industrial and utility bonds and notes, and overnight repurchase agreements. The investments held by the State Investment Council for the State Land Office are uninsured and unregistered and there is no regulatory oversight on the Investment Funds.

Investment Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State Land Office will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds, external investment pools, and securities underlying reverse repurchase agreements are not exposed to custodial credit risk.

**STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009**

NOTE 3. INVESTMENTS (CONTINUED)

The State Land Office does not have a custodial risk policy for Investments, which requires collateral in an amount greater than or equal to 50% of the deposit not insured by Federal Insuring Agencies.

The State Land Office Royalty Advance Payment Fund's investments are held with the State Investment Council in the external investment pools of Large Capital Active and Core Bonds, thus there is no custodial risk related to these investments.

Concentration of Credit Risk. Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent 5% or more of all total investments, including components unit investments, are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Currently, the State Land Office does not have a policy to limit its exposure to concentrated credit risk.

The State Land Office Royalty Advance Payment Fund's investments are held with the State Investment Council in the external investment pools of Large Capital Active and Core Bonds, thus there is no concentration of credit risk related to these investments.

A copy of separately issued financial statements can be obtained from the State Investment Council.

NOTE 4. ACCOUNTS RECEIVABLE

Interest receivables for the following funds, represent earnings from interest in State General Fund Investment Pool as of June 30, 2009.

FUND	26400	77600	77700	09800	51400	Total
	\$ 14,823	2	2,861	286	198	18,170

Interest assessment receivables in the Land Suspense Fund of \$3,202,052 represent uncollected amounts which have been billed by the State Land Office for late payment of royalties due. Some interest assessments may be abated.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009

NOTE 4. ACCOUNTS RECEIVABLE (CONTINUED)

The State of New Mexico collects a royalty based upon the value of oil and gas production on state lands. Remitters of oil and gas royalties to the state report the royalties due, plus property identification (lease numbers) and production volumes in one of two ways: (1) remitters using paper reports send those reports and royalty cash payments to the New Mexico Taxation and Revenue Department which encodes the information and then transfers the information and cash electronically via the ONGARD system to the State Land Office for purposes of editing, reconciliation and distribution to beneficiaries; or (2) remitters using electronic reporting send the information directly to the State Land Office via tape or electronic data interchange (EDI) for ONGARD processing purposes, with cash payments going directly to the State Land Office royalty account.

Royalties receivable in the Oil and Gas Royalty Fund (agency fund) of \$52,732,178 represent the amount of oil and gas production royalties that had not been received by the State Land Office as of June 30, 2009. Amounts are considered fully collectible, thus no allowance account is considered necessary.

NOTE 5. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Land	\$ 252,152	-	-	252,152
Buildings and Library	3,835,036	-	-	3,835,036
Furniture, fixtures, and equipment	744,106	6,227	(31,894)	718,439
Data processing	1,954,164	53,396	(86,337)	1,921,223
Automobiles	713,119	100,683	(130,888)	682,914
Totals	<u>7,498,577</u>	160,306	(249,119)	<u>7,409,764</u>
Accumulated depreciation				
Buildings and Library	(2,806,353)	(250,345)	-	(3,056,698)
Furniture, fixtures and equipment	(500,457)	(44,097)	27,598	(516,958)
Data processing	(1,488,605)	(150,387)	86,211	(1,552,781)
Automobiles	(443,032)	(96,796)	120,359	(419,469)
Total accumulated depreciation	<u>(5,238,447)</u>	(541,625)	234,168	<u>(5,545,904)</u>
Capital assets, net	<u>\$ 2,260,130</u>	(381,319)	(14,951)	<u>1,863,860</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009

NOTE 5. CAPITAL ASSETS (CONTINUED)

The State Land Office does not have any debt related to capital assets as of June 30, 2009. Depreciation expense for the agency amounted to \$541,625 and is considered a general governmental expense.

NOTE 6. COMPENSATED ABSENCES

The following represents changes in compensated absences for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Compensated absences	\$ 414,181	413,144	382,576	<u>444,749</u>

Management estimates that compensated absences are due within one year. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes. In the past compensated absences have been paid out of the General Fund.

NOTE 7. INTERFUND PAYABLES/RECEIVABLES

Transfers payable June 30, 2009, consisted of:

Due to Oil & Gas (26400) from Advance Royalty (51400)	\$ 9,250,000
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This amount was a transfer to be invested with the State Investment Council.

Interfund payable at June 30, 2009, consisted of:

Due to General Fund (09800) from Sales Expense (77600)	15,351
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These amounts are interest paid to funds to be transferred to the general fund.

Due to General Fund (09800) from Oil and Gas (26400)	14,823
Due to General Fund (09800) from Sales Expense (77600)	2
Due to General Fund (09800) from Land Suspense (77700)	2,861

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009**

NOTE 8. TRANSFERS TO/FROM OTHER GOVERNMENTAL AGENCIES

Transfers at June 30, 2009, consisted of:

Transfer in from State of New Mexico Taxation and Revenue Department Fund (17200/33300) to the State Land Office's General Fund (53900/09800) for \$14,933. This amount is a reversion due to the overpayment of the State Land Office portion to the ONGARD Service Center.

Transfer in from General Services Department/Risk Management (35000/21503) for \$2,771 to the State Land Office's General Fund (53900/09800) due to overpayment of the State Land Office portion to the Employee Assistance Program (EAP).

Transfer in from Secretary of State (37000/18000) for \$2,128 to the State Land Office's General Fund (53900/09800) due to payroll error on a employee transfer.

Transfer out to State of New Mexico Tax and Revenue Department (17200/33300) from the State Land Office's General Fund (53900/09800) for \$502,700. This amount is the State Land Office's portion of the operating budget for ONGARD.

Per NM Statues 1978; chapter 19 section 19-1-13. Any balance remaining in the state land maintenance fund on June 30 of each year shall be apportioned among its beneficiaries (public schools, higher education, hospitals, correctional facilities, public buildings and water conservation programs). The amount due to beneficiaries at June 30, 2009 is \$1,777,084.

NOTE 9. RETIREMENT PLAN

Plan Description. Substantially all of the New Mexico State Land Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 7.42% (ranges from 4.78% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The State Land Office is required to contribute 16.59% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the State Land Office are established in

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE 9. RETIREMENT PLAN (CONTINUED)

State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The State Land Office's contributions to PERA for the fiscal years ending June 30, 2009, 2008 and 2007 were \$1,239,000, \$1,186,382, and \$1,105,354, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. New Mexico State Land Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009

NOTE 10. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The New Mexico State Land Office contributions to the RHCA for the years ended June 30, 2009, 2008 and 2007 were \$91,187, \$88,336 and \$85,014, respectively, which equal the required contributions for each year.

NOTE 11. LEASE COMMITMENTS

The State Land Office leases buildings and parking space under operating leases as follows:

Lessor	Term	Amount
PMR, LLC	7/1/06 to 6/30/11	\$ 900/month
505 Processors	7/1/08 to 6/30/11	200/month
Marilyn Barry	7/1/08 to 6/30/11	350/month
East Roswell Development Corp.	7/1/08 to 6/30/11	375/month
Ron Clem, LLC.	7/1/08 to 6/30/12	400/month
SWCD	7/1/06 to 6/30/11	600/month

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009

NOTE 11. LEASE COMMITMENTS (CONTINUED)

Future minimum lease payments under these operating leases are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 34,890
2011	33,900
2012	<u>4,800</u>
	<u>\$ 73,590</u>

The State Land Office leases certain office equipment from various vendors under operating leases. The expenditures for leases during the year ended June 30, 2009 were \$44,368.

Future minimum lease payments under these operating leases follow:

<u>Year Ending June 30,</u>	
2010	37,506
2011	20,082
2012	<u>2,410</u>
	<u>\$ 59,998</u>

NOTE 12. CONTINGENCIES

The State of New Mexico is a titleholder in trust of millions of federally granted acres in New Mexico. As a result, it is possible that the State of New Mexico could become liable for the clean up of contaminated sites on state lands or for the reimbursement to federal or state environmental agencies for the cost of clean up. As of June 30, 2009, no such claims have been asserted by either federal or state environmental agencies. According to management of the State Land Office, if such a claim were filed, the State would have the right to seek contribution from operators, arrangers and transporters at the site. In addition, the State might be able to reach a settlement agreement with the environmental agency and allow the

State to pursue its claims against the other potentially responsible parties. As holder of the legal title to the state lands, the State of New Mexico alone could be liable for the costs of clean-up in the absence of any other potentially responsibility party. However, there is no existing case law to determine if this liability would be the responsibility of the State of New Mexico or the assets of the trust whose beneficiaries hold equitable title to the state lands (i.e. State Land Office).

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009**

NOTE 13. JOINT POWERS AGREEMENT

STATE OF NEW MEXICO ONGARD SYSTEM

The Tri-Agencies – Energy Minerals & Natural Resources Department (EMNRD), Taxation & Revenue Department (TRD), and State Land Office entered into “Agreement” pursuant to the New Mexico Joint Powers Agreement Act, NMSA 1978 ss 11-1-1 through 11-1-7 (1997 Repl) and the ONGARD System Development Act, NMSA 1978, Sections ss 19-110B-1 through 19-10B-8 (1994 Repl) on January 14, 2004. The purpose of this agreement is to identify, define and articulate the methods by which the Tri-Agencies will carry out their shared responsibility for the ongoing management, operation, utilization and maintenance of the ONGARD System; define the process for determining the need for changes to the ONGARD System and for establishing priorities; and establish a mechanism to allocate the financial responsibility of each member of the TRI-Agencies with respect to costs incurred relating to the ONGARD System. The Tri-Agency is responsible for the ONGARD Service Center approved budget as follows: SLO 331/3% and EMNRD and TRD 331/3% each. The agreement may be terminated by mutual consent of the Tri-Agencies. The audit responsibility is with the State of New Mexico Taxation & Revenue.

NOTE 14. SPECIAL APPROPRIATIONS

Per Laws of 2008, Chapter 3, Section 5, Special Appropriation, Item 66 the State Land Office has been appropriated \$500,000 for trust land remediation activities. Per Laws of 2008, Chapter 3, Section 5, Special Appropriation, Item 66, the period of time for expending the five hundred thousand dollars appropriated from the state land maintenance fund for asset inventory, forest health and other necessary remediation projects for state trust lands, royalty recovery litigation, and preservation and protection of state trust lands, royalty recovery litigation, and preservation and protection of state trust water assets is through fiscal year 2009. The total expenditures for fiscal year 2009 were \$476,846. The remaining balance on these appropriations was \$23,154 at June 30, 2009 which reverted to the beneficiaries.

Per Laws of 2005, Chapter 347, Section 61 Items 1, 2, and 3, the State Land Office was appropriated a total of \$1,767,459 for Capital Projects. The period of time for expending the appropriation for building renovations from the Capital Projects Fund is through fiscal year 2010. The total expenditures for fiscal year 2009 were \$3,347. The remaining balance of this appropriation was \$1,206,215 at June 30, 2009.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2009

NOTE 15. CONFLICT OF INTEREST

The State Land Office maintains a Conflict of Interest Policy which applies to all the executive staff, management and staff employees. The Policy requires each person to whom the policy applies to complete a disclosure statement which identifies a business or financial interest of that person which is planning to engage in a business transaction with State Land Office or has engaged in a business transaction with the State Land Office.

NOTE 16. RELATED PARTY TRANSACTIONS

The State Land Office has lease agreements with a member of management. The subject leases have been in existence for over 15 years, prior to the hiring date of January 2003 of the member of management (special projects). For the year ended June 30, 2009, the State Land Office received lease revenue relating to the following leases:

Lease #	Original Issue Date	Last Renewal Date	Number of Acres	Amount Received as of June 30, 2009
GT-0233	10/1/1968	10/1/2008	1,259.88	\$ 1,106
GO-1796	10/21/1980	10/1/2005	325.38	273
GM-2644	10/1/1989	10/1/2004	821.02	752
GM-2583	10/1/1989	10/1/2004	13,983.03	9,247
GM-2750	10/1/1991	10/1/2004	280.00	171
GR-2052	10/1/1995	10/1/2006	1,073.54	<u>736</u>
Total				<u>\$ 12,285</u>

The leases are agriculture leases that are renewed every 5 years.

NOTE 17. STATE AUDITOR SPECIAL AUDIT

The New Mexico State Auditor's Office is in the process of conducting a special audit of various operations of the State Land Office including value credit commercial leases, land swaps/trades and other matters. The final report has not been issued by the Office. Accordingly, no adjustment should any be necessary, has been made to these financial statements.

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
AGENCY FUNDS
June 30, 2009**

SALES EXPENSE FUND

An imprest clearing account for the purpose of paying, as required by State law, expenses of land sales. When a sale is completed, the related sales expense is initially collected by the Land Suspense Fund and then reimbursed to the Sales Expense Fund.

LAND SUSPENSE FUND

A collection and clearing account for the State Land Office receipts. Distributions are made monthly to the appropriate beneficiaries, the Land Maintenance Fund and the State Permanent Fund.

OIL AND GAS ROYALTY FUND

A collection and clearing account for royalties collected by the Oil and Gas Accounting Division of the State of New Mexico Taxation and Revenue Department. Distributable royalties are transferred to the State Permanent Fund each month.

ROYALTY ADVANCE PAYMENT FUND

A collection and clearing account for advance royalty payments made in accordance with Sections 19-10-56 through 19-10-60 NMSA 1978 and related investment income on behalf of beneficiaries.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL - MULTI-YEAR
 CAPITAL PROJECTS FUND
 Year Ended June 30, 2009

	Capital Projects			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Prior year cash balance	\$ 1,766,769	1,766,769	564,966	(1,201,803)
Total revenues	1,766,769	1,766,769	564,966	(1,201,803)
Expenditures				
General government				
Contractual services	135,690	135,690	3,347	132,343
Other	1,631,079	1,631,079	561,619	1,069,460
Total expenditures	1,766,769	1,766,769	564,966	1,201,803
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 June 30, 2009

	Sales Expense Fund	Land Suspense Fund	Oil and Gas Royalty Fund	Royalty Advance Payment Fund	Total
ASSETS					
Interest In State General Fund Investment Pool	\$ 15,351	13,630,596	84,920,699	1,151,597	99,718,243
Investments	-	-	-	10,482,715	10,482,715
Due from Advance Royalty Payment Fund	-	-	9,250,000	-	9,250,000
Receivables					
Royalties	-	-	52,732,178	-	52,732,178
Interest	2	2,861	14,823	198	17,884
Interest assessments	-	3,202,052	-	-	3,202,052
Less allowance for uncollected accounts - interest assessments	-	(3,202,052)	-	-	(3,202,052)
	<u>\$ 15,353</u>	<u>13,633,457</u>	<u>146,917,700</u>	<u>11,634,510</u>	<u>172,201,020</u>
LIABILITIES					
Vouchers payable	-	2,123	-	-	2,123
Due to Oil and Gas Royalty Fund	-	-	-	9,250,000	9,250,000
Due to external parties	15,353	2,861	14,823	-	33,037
Due to beneficiaries					
Royalties and rentals	-	13,188,722	137,652,877	2,384,510	153,226,109
Deposits held in trust	-	439,751	9,250,000	-	9,689,751
	<u>\$ 15,353</u>	<u>13,633,457</u>	<u>146,917,700</u>	<u>11,634,510</u>	<u>172,201,020</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - ALL AGENCY FUNDS
 June 30, 2009

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Interest in State General Fund Investment Pool	\$ 130,942,072	221,043,442	252,267,271	99,718,243
Investments	12,229,310		1,746,595	10,482,715
Due from Advance Royalty Payment Fund	9,250,000	-	-	9,250,000
Receivables				
Oil and gas royalties	123,756,072	52,732,178	123,756,072	52,732,178
Interest	817,902	17,884	817,902	17,884
Interest assessments	3,960,025	-	757,973	3,202,052
Less allowance for uncollected accounts - interest assessments	(3,960,025)	-	(757,973)	(3,202,052)
	<u>\$ 276,995,356</u>	<u>273,793,504</u>	<u>378,587,840</u>	<u>172,201,020</u>
LIABILITIES				
Vouchers payable	1,012	2,123	1,012	2,123
Due to Maintenance Fund	824,821	19,517	811,301	33,037
Due to Oil and Gas Royalty Fund	9,250,000	-	-	9,250,000
Due to beneficiaries				
Royalties and rentals	257,258,772	273,678,764	377,711,427	153,226,109
Deposits held in trust	9,660,751	93,100	64,100	9,689,751
	<u>\$ 276,995,356</u>	<u>273,793,504</u>	<u>378,587,840</u>	<u>172,201,020</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - SALES EXPENSE FUND
 June 30, 2009

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Interest in State General Fund Investment Pool	\$ 13,520	1,831	-	15,351
Interest receivable	110	2	110	2
	<u>\$ 13,630</u>	<u>1,833</u>	<u>110</u>	<u>15,353</u>
LIABILITIES				
Due to Maintenance Fund	\$ 13,630	1,833	110	15,353
	<u>\$ 13,630</u>	<u>1,833</u>	<u>110</u>	<u>15,353</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - LAND SUSPENSE FUND
 June 30, 2009

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Interest in State General Fund Investment Pool	\$ 15,102,388	43,768,230	45,240,022	13,630,596
Receivables				
Interest assessments	3,960,025	-	757,973	3,202,052
Less allowance for uncollected accounts	(3,960,025)	-	(757,973)	(3,202,052)
Interest receivable	107,682	2,861	107,682	2,861
	<u>\$ 15,210,070</u>	<u>43,771,091</u>	<u>45,347,704</u>	<u>13,633,457</u>
LIABILITIES				
Vouchers payable	\$ 1,012	2,123	1,012	2,123
Due to Maintenance Fund	107,684	2,861	107,684	2,861
Due to beneficiaries				
Royalties and rentals	14,690,623	43,673,007	45,174,908	13,188,722
Deposits held in trust	410,751	93,100	64,100	439,751
	<u>\$ 15,210,070</u>	<u>43,771,091</u>	<u>45,347,704</u>	<u>13,633,457</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - OIL AND GAS ROYALTY FUND
 PAYMENT FUND
 June 30, 2009

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Interest in State General Fund Investment Pool	\$ 114,689,730	176,488,250	206,257,281	84,920,699
Due from Advance Royalty Fund	9,250,000	-	-	9,250,000
Receivables				
Oil and gas royalties	123,756,072	52,732,178	123,756,072	52,732,178
Interest receivable	703,507	14,823	703,507	14,823
	<u>\$ 248,399,309</u>	<u>229,235,251</u>	<u>330,716,860</u>	<u>146,917,700</u>
LIABILITIES				
Due to beneficiaries				
Royalties and rentals	\$ 238,445,802	229,220,428	330,013,353	137,652,877
Due to Maintenance Fund	703,507	14,823	703,507	14,823
Deposits held in trust	9,250,000	-	-	9,250,000
	<u>\$ 248,399,309</u>	<u>229,235,251</u>	<u>330,716,860</u>	<u>146,917,700</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - ROYALTY ADVANCE
 PAYMENT FUND
 June 30, 2009

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Interest in State General Fund Investment Pool	\$ 1,136,434	785,131	769,968	1,151,597
Investments	12,229,310		1,746,595	10,482,715
Interest receivable	6,603	198	6,603	198
	<u>\$ 13,372,347</u>	<u>785,329</u>	<u>2,523,166</u>	<u>11,634,510</u>
LIABILITIES				
Due to Oil and Gas Royalty Fund	\$ 9,250,000	-	-	9,250,000
Due to beneficiaries				
Royalties and rentals	4,122,347	785,329	2,523,166	2,384,510
	<u>\$ 13,372,347</u>	<u>785,329</u>	<u>2,523,166</u>	<u>11,634,510</u>

**Report on Internal Control Over
Financial Reporting and on Compliance
And Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Governmental Auditing Standards***

Mr. Patrick Lyons
Commissioner of Public Lands
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, individual fiduciary fund financial statements and budgetary comparisons of the State of New Mexico Commissioner of Public Lands (State Land Office), as of and for the year ended June 30, 2009, which collectively comprise the State Land Office's basic financial statements and have issued our report thereon dated December 8, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State Land Office's internal control over financial reporting as a basis for designing our auditing procedures 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 State Land Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State Land Office's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State Land Office's ability to initiate, authorize, record, process, or report financial data reliable in

Mr. Patrick Lyons
Commissioner of Public Lands
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State Land Office's financial statements that is more than inconsequential will not be prevented or detected by the State Land Office's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 09-01, 09-02, and 09-03 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State Land Office's internal control.

Our consideration of the internal control over financial reporting was the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Land Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that are required to be reported per Section 12-6-5, NMSA 1978 that are described in the accompanying schedule of findings and responses as items 09-04 and 09-05.

Mr. Patrick Lyons
Commissioner of Public Lands
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

The State Land Office's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the State Land Office's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the State Land Office, the State of New Mexico, Office of the State Auditor and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
December 8, 2009

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2009

08-01	Payroll Termination Process	Resolved
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STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2009

09-01 Unapproved Sub-Lease

CONDITION

During our testwork over existing lease agreements, we noted one instance out of 55 leases listed wherein a lease was allowed to renew without submitting required documentation for the existing unapproved sub-lease arrangement noted by the field report.

CRITERIA

Per the New Mexico Administrative Code ("NMAC"), Title 19, Chapter 2, § 9 (14) (A): "Any assignment or sublease for use of trust lands is void without the approval of the commissioner."

CAUSE

When the lease neared its renewal date, an examination of the site and corresponding field report was prepared. The field report noted that the existing lessee had sub-leased a portion of the lease without notifying the State Land Office or obtaining the approval of the commissioner. The lease analyst sent a letter to the lessee requesting that they apply to have the sub-lease approved, but failed to follow through and renewed the lease without the amendment.

EFFECT

The lease was allowed to renew, and continues to exist, with an unapproved sub-lease, thereby potentially depriving the State Land Office, and its corresponding beneficiaries, of the resulting additional revenues that would be generated. In addition, the existing sub-lease is in violation of the NMAC governing the State Land Office.

RECOMMENDATION

To prevent such a transaction, we recommend that the Commercial Resources Division implement a policy that would require all leases be reviewed for compliance with the NMAC, and that leases with unapproved sub-lease agreements not be allowed to renew until the agreement has been brought into compliance with the NMAC.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-01 Unapproved Sub-Lease (Continued)

AGENCY RESPONSE

The agency agrees that the oversight noted under “Cause” – that the lease was renewed with apparent knowledge of a sub-lessee – occurred. However, several points should be noted. First, despite renewal, the New Mexico State Land Office retains the ability to collect all monies owed, including any penalty and interest applicable, thus addressing any potential loss of revenue. Second, the agency is taking the following steps to address this particular oversight: Giving the Lessee written notice that they must come forward and address the issue of any sub-leases they may currently have or have had in the past at this site, along with a warning that failure to do so in a timely manner may result in cancelation due to the default. Last, the agency response to such matters is being addressed in the new policy and procedures manual for the Commercial Division of the New Mexico State Land Office, but that in no way relieves the lessee of their obligation to perform.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-02 Business Lease issued Without Consent of Existing Lessee

CONDITION

During our test work over existing lease agreements, we noted one instance out of 55 leases listed wherein a new business lease was issued on state trust land that was already encumbered by an existing grazing lease. The business lease was issued without notification to or consent from the existing leaseholder.

CRITERIA

Per the New Mexico Administrative Code, Title 19, Chapter 2, § 9 (21):

“Except as provided in this section, the commissioner may not lease under a business lease any trust land currently leased under an existing surface lease unless the existing lessee relinquishes his interest in the trust land or the commissioner exercises any right of withdrawal of land which the commissioner may have. Notwithstanding the foregoing, the commissioner may determine that a proposed business lease will not unreasonably interfere with the authorized users under an existing lease, and may allow a new business lease in compliance with the following requirements:

- A. The new business lease shall identify the existing lease, shall state that the new business lessee’s rights and privileges are subject to the existing lessee’s rights and privileges under the existing lease, unless waived or amended, and shall provide that the new business lease will not interfere with the uses permitted under the existing lease.
- B. The existing lessee must consent in writing to the new business lease.”

CAUSE

When the lease was issued, the lease analyst failed to recognize that the land was already encumbered under an existing grazing lease.

EFFECT

The lessee under the existing grazing lease suffered damage to his leasehold improvements as a result of the new business lease, and until the consent from the existing leaseholder was obtained, the lease was out of compliance with the NMAC.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-02 Business Lease issued Without Consent of Existing Lessee (Continued)

RECOMMENDATION

To prevent such a transaction, we recommend that the Commercial Resources Division implement a policy that would require all leases be reviewed for compliance with the NMAC.

AGENCY RESPONSE

The agency agrees that the oversight noted under "Condition" occurred. Since noting the oversight, staff took the following steps to ensure that the applicable requirements of 19.2.9.21 NMAC were met: (i) secured the existing lessee's written consent to the new business lease. Further, the matter is also addressed in the new policy and procedures manual for the Commercial Division of the New Mexico State Land Office.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-03 Business Lease Cancellation

CONDITION

During our test work over existing lease agreements, we noted one instance out of 55 leases listed wherein an existing business lease was not cancelled as requested by the leaseholder.

CRITERIA

A request to cancel an existing business lease should be executed promptly, in order to accurately reflect the state trust land available for lease, and thereby increase the potential revenue earned for the beneficiaries.

CAUSE

The lessee sent a request, via facsimile and certified letter dated December 22, 2008, to the State Land Office in order to cancel their existing business lease. The request was routed to the lessee's lease file as correspondence, and was not processed until a past due statement was generated, in October 2009.

EFFECT

The request to cancel the lease was not executed promptly, resulting in an inability for those state trust lands to potentially generate revenue for the beneficiaries.

RECOMMENDATION

To prevent such a transaction, we recommend that the Commercial Resources Division implement a policy that would require all lessee correspondence be routed through the lease analysts for processing.

AGENCY RESPONSE

It is correct that the lessee did request, on 12/22/08, that the above referenced business lease be canceled, and that an oversight contributed to a delay in the agency responding. However, several points should be noted. First, there is no indication that the property would have been leased by another lessee if no delay had occurred, and, thus, no support for the audit contention of lost revenue. Second, the lessee in this instance did not file the paperwork required by NMAC 19.2.9.19 RELINQUISHMENT Paragraph B or pay pro-rata rental for the period that had elapsed from the lease anniversary date to the request for cancellation date. The lease references the procedures for relinquishment in paragraph 10, and in paragraph 25 specifies that the lease is entered into pursuant to NMAC 19.2.9; thus, the lessee is responsible for following those requirements in order to relinquish. Last, the agency response time to such matters is being addressed in the new policy and procedures manual for the Commercial Division of the New Mexico State Land Office.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-04 Cash Receipts Activity

CONDITION

In January 2009, the State Land Office discovered two discrepancies in the recognition of lease payments in the accounting system. The first in the amount of \$288.74 was received on September 16, 2008 and the other, in the amount of \$224.27, was received on January 9, 2009. Both amounts were received in cash, a written receipt was issued to the payor, and the amounts were recorded as lease payments in the ONGARD system. However, neither amount was included in the daily deposit of cash. Subsequent to discussions with the accounting staff, an envelope containing \$225.00 was discovered in the vault (previous searches of the vault did not discover the funds), and shortly thereafter, the State Land Office received a negative deposit issued by the State Treasurer's Office for the remaining amount. The State Land Office has been unable to identify the source of the deposit in question.

CRITERIA

Sections §6-5-1 through §6-5-6 of NMSA 1978 require state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. According to the *Manual of Model Accounting Practices* issued by the Financial Control Division of the New Mexico Department of Finance and Administration, the following policies apply to the receipt and deposit of cash:

1. State agencies shall log or receipt all monies received at the time received.
2. State agencies shall document all monies received either with a pre-numbered receipt or by entering them in a cash receipt log, that specifies the amount and date of the receipt, the source of revenue, and complete account coding information. Cash registers used by agencies must issue a numbered cash receipt as validation.
3. State agencies must account for all prenumbered receipts:
 - a. Receipts available for use must be adequately controlled and safeguarded.
 - b. Spoiled or voided receipts must be marked "Void" and must be retained for support and independent verification.

CAUSE

For one of the transactions, a payment was accepted at the SLO accounting office and a hand-written receipt was issued to the payor. For the other transaction, the payment was entered into the SLO's cash receipts module and then reversed. Typically, a transaction will be voided if the amount or account was entered in error. In these instances, the employee accepting the cash payment can void and re-enter the transaction without the approval or oversight of another employee or manager.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-04 Cash Receipts Activity (Continued)

EFFECT

Because the payor was issued a hand-written receipt, the cash received was not entered into the accounting system at the time it of receipt. This increases the risk that the cash might be mishandled, either through error or fraud. Because an employee has the ability to void a cash payment transaction, there is the risk that cash receipts may not be recorded or deposited, and that such payments can be converted to personal use.

RECOMMENDATION

To prevent such a transaction, we recommend that all hand-written receipts be approved by a manager in the Administrative Services Division to ensure that all cash receipts are appropriately recorded in the accounting system. In addition, we recommend that all voided cash receipts are reviewed and approved by a manager in the Administrative Services Division.

AGENCY RESPONSE

Because of the agencies internal controls, the agency discovered two cash payments received but not deposited. The agency has implemented additional procedures to ensure all cash receipts are recorded upon receipt.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-05 Travel and Per Diem

CONDITION

During the course of the year under audit, the State Land Office discovered that an employee improperly requested reimbursement for travel expenses. The employee requested a travel advance for per diem and other expenses, and returned two days early without adjusting their travel reimbursement request. The State Land Office became aware of this when the agency received a red-light camera citation on the agency-issued vehicle.

CRITERIA

Sections §6-5-1 through §6-5-6 of NMSA 1978 require state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. According to the *Manual of Model Accounting Practices* issued by the Financial Control Division of the New Mexico Department of Finance and Administration, the following policies apply to cash disbursement requirements and travel advances:

1. For each disbursement, state agencies must provide adequate supporting documentation which may consist of an invoice, a copy of a state statute, a copy of a contract, a joint powers agreement, a memorandum of understanding, etc.
2. State agencies must submit an *Itemized Schedule of Travel Expenses* form, completed by the traveler.
3. Public officers or employees who travel shall receive a per diem amount or shall be reimbursed for actual lodging, meal expenses and mileage in accordance with the rules and regulations of the state.

CAUSE

The employee requested per diem reimbursement for lodging and meals expense while traveling to Hobbs, New Mexico for five days. The employee returned two days earlier than stated in her travel reimbursement request. Because the reimbursement was based on a flat, per diem rate, no receipts were required.

EFFECT

The employee was reimbursed \$182 for two days' per diem of improper travel expenses.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2009

09-05 Travel and Per Diem (Continued)

RECOMMENDATION

To prevent such a transaction, we recommend that the field officers perform random audits of field visits to ensure the amount of time recorded was actually performed. This can be performed by calling the site to verify the amount of time spent by the employee at each location.

AGENCY RESPONSE

Procedures have been instituted to prevent such a situation from arising again. Employees will be required to check in with supervisors upon arrival. The supervisor will call the scheduled business or facility to verify the employee's presence.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
EXIT CONFERENCE
June 30, 2009

An exit conference to discuss the results of the audit and the audit report was held on December 2, 2009. In attendance were:

Representing State of New Mexico Commissioner of Public Lands:

Patrick Lyons, Commissioner of Public Lands
Dennis Garcia, Deputy Commissioner of Public Lands
Della Gutierrez, Assistant Commissioner of Administrative Services
Margaret Sena, Division Director of Administrative Division
Dallas Rippey, Assistant Commissioner of Commercial Resources

Representing Moss Adams LLP:

Valerie Allen, Partner

The financial statements were prepared by the management of the State Land Office.