

**NEW MEXICO COMMISSIONER OF  
PUBLIC LANDS**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

# **TABLE OF CONTENTS**

## **STATE OF NEW MEXICO COMMISSIONER OF PUBLIC LANDS**

### **INTRODUCTORY SECTION**

Official Roster .....	1
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### **FINANCIAL SECTION**

Report of Independent Auditors .....	2
--------------------------------------	---

Management's Discussion and Analysis .....	5
--	---

#### Basic Financial Statements

##### Government-Wide Financial Statements

Statement of Net Assets .....	12
-------------------------------	----

Statement of Activities .....	14
-------------------------------	----

##### Fund Financial Statements

###### Governmental Funds Financial Statements

Balance Sheet .....	15
---------------------	----

###### Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Assets.....	16
---	----

###### Statement of Revenues, Expenditures, and Changes

in Fund Balances-Governmental Funds .....	17
---	----

# **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.....	18
Statement of Revenues and Expenditures Budget and Actual - General Fund.....	19
Statement of Fiduciary Assets and Liabilities – Agency Funds.....	20
Notes to Financial Statements.....	21

### **SUPPLEMENTARY INFORMATION**

Agency Funds.....	42
Combining Schedule of Fiduciary Assets and Liabilities – All Agency Funds.....	43

# **TABLE OF CONTENTS**

## **STATE OF NEW MEXICO COMMISSIONER OF PUBLIC LANDS**

### **OTHER SUPPLEMENTARY INFORMATION**

Combining Statement of Changes in Assets and Liabilities – All Agency Funds.....	44
Combining Statement of Changes in Asset and Liabilities -All Agency Funds	
Sales Expense Fund .....	45
Land Suspense Fund.....	46
Oil and Gas Royalty Fund-Payment Fund .....	47
Royalty Advance Payment Fund .....	48

### **OTHER INFORMATION**

Report of Independent Auditors 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> .....	49
Schedule of Prior Year Audit Findings.....	51
Schedule of Finding and Responses.....	52
Exit Conference.....	53

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

**OFFICIAL ROSTER**

**JUNE 30, 2011**

<b>Name</b>	<b>Title</b>
Ray Powell	Commissioner of Public Lands
Bob Jenks	Deputy Commissioner of Public Lands
Assistant Commissioners of Public Lands:	
Mike Anaya	Surface Resources
Harry Relkin	General Counsel
Christina Cordova	Communications
Don Britt	Commercial Resources
Ralph Gallegos	Special Projects
Kurt McFall	Oil, Gas and Mineral Resources
Elaine Olah	Administrative Services
John Romero	Field Operations
Division Directors:	
Larry Roybal	Oil, Gas and Minerals Division
Mary Dubose	Surface Resources Division
Jim Norwick	Field Operations Division
Brian Bingham	Commercial Leasing Division
Kurt McFall	Royalty Management Division
Lucille Sisneros	Records Management Division
Margaret Sena	Administrative Services Division

## Report of Independent Auditors

Mr. Ray Powell  
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, general 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, 2011, which collectively comprise the State Land Office's basic financial statements as listed in the table of contents. We have also audited the individual fiduciary fund financial statements presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2011. 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 and with the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

Mr. Ray Powell  
State of New Mexico  
Commissioner of Public Lands  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor

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, 2011, 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 the General Fund of the State Land Office, as of June 30, 2011, 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, 2011, 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 October 31, 2011, 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.

Mr. Ray Powell  
State of New Mexico  
Commissioner of Public Lands  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor

Management's discussion and analysis on pages 5 through 11 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 inquires 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 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 31, 2011



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

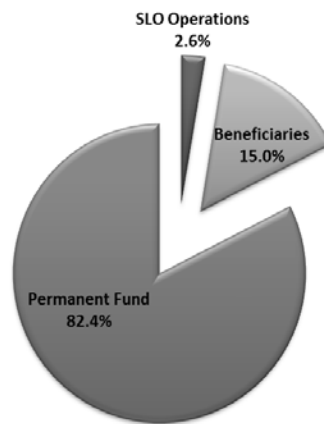
The Management's Discussion and Analysis (MD&A) provides in layman's terms the past and current position of the agency's financial condition. Further, the discussion and analysis of the New Mexico State Land Office's (SLO) (Department) (Agency) financial performance, introduces the basic financial statements and provides an analytical overview of the agency's financial activities for the fiscal year ended June 30, 2011. The report provides and analysis of the agency's overall financial position and results of operations, information on changes in the agency's financial position, and a discussion of significant changes in assets and liabilities. 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 agency's financial statements.

**FINANCIAL HIGHLIGHTS**

The Commissioner of Public Lands is responsible for providing for current and future revenues for specified beneficiaries, while ensuring the long-term health and productivity of the State Trust Lands (Trust) for future generations of New Mexicans. The Commissioner of Public Lands is an elected official pursuant to the New Mexico Constitution and is non general fund agency. The Land Maintenance Fund is the general operating fund of the State Land Office and it is used to account for the general operations of the office in carrying out its specific functions. Sources of revenue are provided by the transfer of lease and miscellaneous (fees and interest on deposits) income from the Land Suspense Fund.

For 2011, the trust realized total revenues of \$499.2 million, with \$411.5 million in revenue coming from nonrenewable sources deposited into Land Grant Permanent Fund (LGPF). Of these total distributions, direct distributions to our beneficiaries from rentals and other renewable sources totaled \$74.6 million. Total distribution from LGPF totaled \$535.9 million for a grand total distribution to our beneficiaries of \$610.6 million for fiscal year 2011. The primary beneficiary, Public Schools, received \$504.8 million.

**Distribution of State Trust Land Revenue**



Administration of the Trust as a percentage of total revenues remains at a low 2.6 percent.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

**FINANCIAL STATEMENTS EXPLAINED**

The Department's Basic Financial Statements (BFS) are presented in four parts, in the following order:

1. Government-Wide Financial Statements,
2. Fund Financial Statements,
3. Budgetary Comparison Statements, and
4. Notes to the Basic Financial Statements

**Government-wide Financial Statements**

The government-wide financial statements include the first two financial statements, the Statement of Net Assets and the Statement of Activities. These statements report information on all of the financial activities and resources of the Department as a whole except for information applicable to fiduciary activities. Fiduciary activities represent funds held in trust for beneficiaries. These funds are not included in the resources available to support the Department's governmental activities. Governmental activities are financed by Land Maintenance Fund revenue appropriated as other state funds.

The Government-wide Statement of Net Assets reports the assets of the Department and the corresponding claims and liabilities against those assets at June 30, 2011. The difference between the value of the assets and the liabilities is reflected as the value of the net assets. Increases or decreases in net assets measure whether the financial position of the Department improved or deteriorated. Net assets legally limited to a particular use are reported as restricted. Unrestricted net assets are assets that can be used to fund operating expenses in future years.

Government-wide Statement of Activities reports the expenses of administering state trust lands with a comparison of the program revenues obtained to finance costs. The statement also reports the change in net assets during the 2011 fiscal year.

**Fund Financial Statements**

The Fund Financial Statements that follow the department-wide financial statements report on the financial position and changes in financial position of the individual funds used by the Department. Funds are separate accounting entities used in government accounting to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those financial resources. The Department uses two types of funds to account for its financial activities: Governmental Funds and Fiduciary Funds.

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Year Ended June 30, 2011**

**FINANCIAL STATEMENTS EXPLAINED (CONTINUED)**

**Governmental Funds** are used to account for the finances of the governmental activities reported in the department-wide financial statements. The Department uses a **general fund** to account for its general operating activities.

**Fiduciary Funds** are used to account for resources the Department holds for others. The Department uses four fiduciary funds. Please refer to Note 2 to the Financial Statements for an explanation of these funds.

**ANALYSIS OF THE AGENCY'S FINANCES**

**Net Assets and Changes in Net Assets**

The following table summarizes the net assets in agency for the fiscal year ended June 30, 2011, with comparative balances for the fiscal years ended June 30, 2010.

Comparative Analysis of Statement of Net Assets

	<b>Governmental Activities FY 2011</b>	<b>Governmental Activities FY 2010</b>	<b>Total Percentage Change</b>
Current and other assets	<b>\$ 4,337,789</b>	5,786,278	-25.0%
Capital assets less accumulated depreciation	<b>1,610,088</b>	1,825,839	-11.8%
Total assets	<b>5,947,877</b>	7,612,117	-21.9%
Liabilities	<b>2,562,685</b>	3,219,638	-20.4%
Net assets			
Investments in capital assets	<b>1,610,088</b>	1,825,839	-11.8%
Restricted - ONGARD Modernization	<b>1,668,000</b>	1,668,000	0.0%
Unrestricted	<b>107,104</b>	59,305	80.6%
Total net assets	<b>\$ 3,385,192</b>	3,553,144	-4.7%

Net Assets decreased by 4.7% in FY 2011 and, generally, reflect the depreciation of capital assets and the increase liability for compensated absences.

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 agency's general and other revenues. This is intended to summarize and simplify the users' analysis of

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Year Ended June 30, 2011**

**ANALYSIS OF THE AGENCY'S FINANCES (CONTINUED)**

the cost of 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.

The following table presents the detail changes in net assets in agency for the fiscal year ended June 30, 2011, with comparative balances for the fiscal year ended June 30, 2010.

Comparative Analysis of Statement of Activities

	<b>Government Activities FY 2011</b>	<b>Government Activities FY 2010</b>	<b>Total Percentage Change</b>
Expenses			
General government	<b>\$(12,564,022)</b>	(13,177,236)	-4.7%
Program revenues	<b>14,130,248</b>	15,078,180	-6.3%
Change in net assets net (expense) revenue	<b>1,566,226</b>	1,900,944	-17.6%
General revenues and (expenses)			
Transfers out	<b>(546,100)</b>	(571,700)	-4.5%
Other income	<b>100,350</b>	8,413	1092.8%
Unrestricted investment earnings	<b>226,205</b>	176,762	28.0%
Reapportionable to other beneficiaries	<b>(1,520,611)</b>	(1,453,947)	4.6%
Gain on sale of capital assets	<b>5,978</b>	2,967	101.5%
<b>Total general revenues         and transfers</b>	<b>(1,734,178)</b>	(1,837,505)	-5.6%
Change in net assets	<b>(167,952)</b>	63,439	-364.7%
Net assets, beginning	<b>3,553,144</b>	3,489,705	1.8%
Net assets, ending	<b>\$ 3,385,192</b>	3,553,144	-4.7%

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

**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.

As required by the Office of the State Auditor under 2NMAC 2.2.10, 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 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 agency. The Land Maintenance Fund is the revenue source for the agency'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 GAA or through other acts of the legislature.

Budget was transferred from the Other Costs category to Contractual Services; there were no other changes between the original and final operating budget for Fiscal Year 2011. Decreased need for funding mainframe costs and forced vacancies resulted in a year-end budget balance of \$554,026.

**CAPITAL ASSETS**

The Agency's investment in capital assets as of June 30, 2011, amounted to \$1,610,088, net of accumulated depreciation. This investment in capital assets includes land, buildings, automobiles, furniture, equipment and machinery, data processing equipment. The total decrease in the Department's investment in capital assets for the

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Year Ended June 30, 2011**

**CAPITAL ASSETS (CONTINUED)**

current period was \$215,751 or 13%. The reduction on capital assets is due depreciation expense on existing assets totaling more than new acquisitions along with disposal of nearly depreciated assets resulting in a net decrease in capital assets.

**Comparative Analysis of Capital Assets**

	<b>June 30, 2011</b>	June 30, 2010
Land	<b>\$ 252,152</b>	252,152
Buildings and library	<b>4,162,468</b>	4,149,716
Furniture, fixtures and equipment	<b>728,091</b>	733,042
Data processing	<b>1,913,048</b>	1,885,748
Automobiles	<b>687,737</b>	697,992
<b>Totals</b>	<b>7,743,496</b>	7,718,650
Accumulated depreciation	<b>(6,133,408)</b>	(5,892,811)
<b>Capital assets, net</b>	<b>\$ 1,610,088</b>	1,825,839

**ANTICIPATED CHANGES**

Trust revenue from oil and gas, both from lease sale bonuses and royalties, reflected the optimism/pessimism of regional industry operators, the national economy, and international events. Total revenue generated the first three months of FY 2012 nearly equaled 43% of the revised FY 2012 (May 2011) estimates for the 2012 fiscal year and 96% of the projected Oil & Gas Lease bonuses. Projections for grazing revenue decline in FY 2012 and recover in FY 2013.

Oil and Gas Revenue make up approximately 94% of total SLO-generated revenue. Projections for oil and gas lease bonuses are expected to decline significantly in FY 13 – as the most lucrative known sites have been leased. As more of the available state trust land is leased, lease bonuses will decline and the percentage of Land Maintenance Fund revenue used to support the Agency will increase.

Oil royalties in FY 12 are projected to increase - price is expected to remain around \$85 per BBL in FY 12 (July 2011 Consensus Revenue Estimate testimony) and increasing to an average of \$89.50 in FY 13 with increased production in both years. Gas royalties are projected to decrease slightly, although gas prices are projected to decrease in FY 12 and rebound in FY 13 with production rates expected to decrease. *Revenue projections remain volatile and will be monitored monthly and projections updated at least quarterly.*

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

**ANTICIPATED CHANGES (CONTINUED)**

Transactions suspended upon the change in administration affected land exchanges. Proposed private land exchanges were cancelled and regulations governing land exchanges will be amended to comport with recent Supreme Court rulings. Planning and development leasing have also been suspended pending review and revision of Planning and Development regulations. The revisions will affect how the Commissioner addresses the impacted transactions.

The decline in land available for oil and gas leasing will certainly affect income to the Land Maintenance Fund. New sources of revenue will be needed to sustain agency, and to some degree beneficiary budgets. Beneficiary distribution mix may shift to more trust land revenue from royalties than from rental income.

Finally, the impact of pending litigation, if successful, will change the deductions oil and gas producers take when calculating net royalties. The result would be an increase in royalty revenue.

**FINANCIAL CONTACT**

The Agency's financial statements are designed to present users with the general overview of the agency's finances and to demonstrate the department's accountability. If you have questions about the report or need additional financial information contact the Agency's Assistant Commissioner of Administrative Services at (505) 827-5703 or by mail 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, 2011**

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Interest in the State General Fund Investment Pool	\$ 4,302,819
Petty cash	400
Interest receivable	331
Supplies inventory	16,272
Due from external parties	<u>17,967</u>
<b>Total current assets</b>	<u>4,337,789</u>
Capital assets	
Land	252,152
Buildings	4,162,468
Furniture, fixtures and equipment	728,091
Data processing	1,913,048
Automobiles	687,737
Accumulated depreciation	<u>(6,133,408)</u>
<b>Total capital assets, net of accumulated depreciation</b>	<u>1,610,088</u>
<b>Total assets</b>	<u><u>\$ 5,947,877</u></u>

*See Notes to Financial Statements.*



**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 STATEMENT OF NET ASSETS (CONTINUED)  
 June 30, 2011**

	Governmental Activities
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts payable	\$ 289,254
Accrued payroll and payroll liabilities	336,423
Compensated absences payable	416,397
Due to beneficiaries	<u>1,520,611</u>
<b>Total current liabilities</b>	<u>2,562,685</u>
Net Assets	
Invested in capital assets	1,610,088
Restricted land management system	1,668,000
Unrestricted	<u>107,104</u>
<b>Total net assets</b>	<u>3,385,192</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 5,947,877</u></u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2011**

	Governmental Activities
Expenses	
General government	<u>\$ 12,564,022</u>
Program revenues	
Charges for services	<u>14,130,248</u>
Net revenue (expense)	<u>1,566,226</u>
General revenues and (expenses)	
Gain on sale of capital assets	5,978
Other income	100,350
Transfers to other state agencies	(546,100)
Unrestricted investment earnings	226,205
Reapportionable to other beneficiaries	<u>(1,520,611)</u>
<b>Total general revenues and transfers</b>	<u><b>(1,734,178)</b></u>
<b>Change in net assets</b>	<u><b>(167,952)</b></u>
Net assets, beginning of year	<u>3,553,144</u>
<b>Net assets, ending of year</b>	<u><u><b>\$ 3,385,192</b></u></u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2011**

	General Fund
<b>ASSETS</b>	
Interest in the State General Fund Investment Pool	\$ 4,302,819
Petty cash	400
Interest receivable	331
Supplies inventory	16,272
Due from external parties	17,967
	<hr/>
<b>Total assets</b>	<b>\$ 4,337,789</b>
	<hr/> <hr/>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 289,254
Accrued payroll and payroll liabilities	336,423
Due to beneficiaries	1,520,611
	<hr/>
<b>Total liabilities</b>	<b>2,146,288</b>
	<hr/>
Fund Balances:	
Non-Spendable	
Supplies	16,272
Petty cash	400
Spendable	
Committed - Refunds	500,000
Committed - Land management system	1,668,000
Unassigned	6,829
	<hr/>
<b>Total fund balances</b>	<b>2,191,501</b>
	<hr/>
<b>Total liabilities and fund balances</b>	<b>\$ 4,337,789</b>
	<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, 2011**

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

<b>Total Fund Balances - Governmental Funds        (Governmental Funds Balance Sheet)</b>	<b>\$ 2,191,501</b>
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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	4,162,468	
Furniture, fixtures and equipment	728,091	
Data processing	1,913,048	
Automobiles	687,737	
Accumulated depreciation	<u>(6,133,408)</u>	
<b>Total capital assets</b>		<b>1,610,088</b>

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	<u>(416,397)</u>
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<b>Net Assets of Governmental Activities (Statement of Net Assets)</b>	<b><u><u>\$ 3,385,192</u></u></b>
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*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, 2011**

	General Fund
Revenues	
Other state funds	\$ 722,183
Rental income	13,408,065
Interest income	226,205
Other income	109,952
<b>Total revenues</b>	<u>14,466,405</u>
Expenditures, current	
Personal services	7,407,088
Employee benefits	2,799,143
In-state travel	177,141
Maintenance and repairs	159,535
Supplies	490,793
Contractual services	2,892
Operating costs	1,171,181
Out-of-state travel	31,326
Capital outlay	162,975
<b>Total expenditures</b>	<u>12,402,074</u>
Excess(deficiency) revenues over expenditures	<u>2,064,331</u>
Other financing sources (uses)	
Transfer to other state agencies	(546,100)
Reapportionable to other beneficiaries	(1,520,611)
<b>Total other financing uses</b>	<u>(2,066,711)</u>
<b>Net change in fund balance</b>	(2,380)
Fund balance, beginning of year	<u>2,193,881</u>
<b>Fund balance, end of year</b>	<u><u>\$ 2,191,501</u></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, 2011**

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

<b>Net change in net assets (Statement of Activities)</b>		<b>\$ (167,952)</b>
<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>		
		(50,179)
<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	\$ (162,975)	
Depreciation expense	375,102	
Excess of Depreciation expense over Capital Outlay	<u>212,127</u>	212,127
<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>		
		(5,978)
<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>9,602</u>
<b>Change in fund balances - Governmental Funds (Statement of Revenues, Expenditures and Changes in Fund Balance)</b>		<b><u><u>\$ (2,380)</u></u></b>

*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LAND  
 STATEMENT OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL -  
 GENERAL FUND  
 Year Ended June 30, 2011

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Other state funds	\$ 560,700	560,700	722,183	161,483
Rental income	12,630,100	12,630,100	13,408,065	777,965
Interest income	255,900	255,900	226,205	(29,695)
Miscellaneous revenue	55,500	55,500	109,952	54,452
<b>Total budgeted revenues</b>	<b>13,502,200</b>	<b>13,502,200</b>	<b>14,466,405</b>	<b>964,205</b>
<b>Expenditures</b>				
General government				
Personal services & benefits	10,430,000	10,430,000	10,206,232	223,768
Contractual services	676,700	711,700	630,391	81,309
Other	1,849,400	1,814,400	1,565,451	248,949
Other financial uses	546,100	546,100	546,100	-
<b>Total budgeted expenditures</b>	<b>13,502,200</b>	<b>13,502,200</b>	<b>12,948,174</b>	<b>554,026</b>
Transfers from other funds	-	-	-	-
Reapportionment	-	-	1,520,611	(1,520,611)
<b>Total expenditures</b>	<b>13,502,200</b>	<b>13,502,200</b>	<b>14,468,785</b>	<b>(966,585)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ -</b>	<b>-</b>	<b>(2,380)</b>	<b>(2,380)</b>

See Notes to Financial Statements.

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS  
 June 30, 2011**

	Agency Funds
<b>ASSETS</b>	
Interest in the State General Fund Investment Pool	\$ 119,059,913
Investments	10,071,110
Receivables	
Interest	11,241
Royalties	91,982,216
Interest assessments	3,414,283
Allowance for uncollectible accounts	<u>(3,414,283)</u>
<b>Total assets</b>	<b><u>\$ 221,124,480</u></b>
<b>LIABILITIES</b>	
Accounts payable	373,811
Due to external parties	17,968
Due to beneficiaries	
Royalties and rentals	210,900,451
Deposits held in trust	<u>9,832,250</u>
<b>Total liabilities</b>	<b><u>\$ 221,124,480</u></b>

*See Notes to Financial Statements.*



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization.* The State of New Mexico Land Office (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 Land Office and designate the Commissioner of Public Lands as the trustee. As a result, the 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 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 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 Land Office have been included.

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

The accounting policies of the 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 Land Office as a whole) and fund financial statements. The reporting model focus is on either the 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, 2011**

**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 Land Office includes only one function (general government). Inter-fund balances have been eliminated in the government-wide financial statements.

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

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

The Land Office has elected not to apply Financial Accounting Standard Board pronouncements issued after November 30, 1989.

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 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 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 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 Land Office first uses restricted resources then unrestricted resources.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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

*Fund Accounting.* The accounts of the 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 Land Office:

**A. Governmental Funds**

*General Fund.* The Land Maintenance Fund (SHARE fund number 09800) is the general operating fund of the Land Office and it is used to account for the general operations of the 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 general fund per section 19-1-1.

**B. Fiduciary Funds**

*Agency Funds.* Agency funds are used to account for assets held by the 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 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 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."

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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

**B. Fiduciary Funds (Continued)**

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.

*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 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.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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

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 Land Office. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the General Fund. Expenditures may not legally exceed appropriations at the object expenditure classification level. Budget amendments require approval by the State's Budget Division of 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 NMSA 19-1-13.

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 of 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.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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

The Land Office is required to submit a budget report for the General Fund and Special Revenue Fund to the Department of Finance and Administration and the Legislative Finance Committee by September 1 of each year. The report submitted by the 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, 2011.

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

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

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 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."

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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

*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 Land Office has transactions between funds. The accompanying financial statements reflect such transactions as operating transfers.

*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 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

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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

*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 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 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, 2011, the Land Office had no claims for which the Risk Management Division has returned as not covered that would become the responsibility of the Land Office.

*Government Fund Reporting.* In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature’s and Executive Branch’s intent to be used for specific purposes or in some cases by legislation.

The agency’s fund balances represent: 1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned Purposes, which includes balances that are constrained by the government’s intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2011, follows:



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

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

*Nonspendable - 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.

*Nonspendable - Petty Cash.* This reserve was created for imprest petty cash funds.

*Spendable - Committed for Refunds.* This reserve was created for refunds, per NM Statute 1978 Chapter 19 Public Lands, Section 19-7-62.

*Spendable - Committed for Land Management System.* This reserve was created to procure and implement a land management system for management of public lands, per Laws of 2011, Chapter 6, 2<sup>nd</sup> Special Session, Section 7, number 10 and number 11.

**NOTE 2. CASH AND CASH EQUIVALENTS**

*Cash and Cash Equivalents Custodial Credit Risk.*

The interest in the 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 Department 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 Department'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, 2011**

**NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)**

As of June 30, 2011, cash consisted of the following:

	Account Number	Amount
General Fund		
On deposit with the State Treasurer - Land Maintenance Fund	539-09800	\$ 4,302,819
Petty cash	N/A	<u>400</u>
		<u>4,303,219</u>
Agency Funds		
On deposit with the State Treasurer - Oil and Gas Royalty Fund	539-26400	101,945,352
Sales Expense Fund	539-77600	6,829
Land Suspense Fund	539-77700	15,952,289
Royalty Advance Payment Fund	539-51400	<u>1,155,443</u>
		<u>119,059,913</u>
		<u>\$123,363,132</u>

Differences between State Treasurer's Office (STO) and reconciled cash balances are as follows:

	Cash Balance Per STO	Deposits In Transit/ Refunds Not Recorded	Cash Balance Per Financial Statements
General Fund	\$ 4,302,819	-	4,302,819
Agency Funds:			
Sales Expense Fund	6,829	-	6,829
Land Suspense Fund	15,952,289	-	15,952,289
Oil & Gas Royalty	101,945,352	-	101,945,352
Royalty Advance Payments	<u>1,155,443</u>	-	1,155,443
	<u>\$ 123,362,732</u>	-	
General Fund - petty cash			<u>400</u>
			<u>\$ 123,363,132</u>

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

**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 \$10,071,110. 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 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 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.

The 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 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 Land Office does not have a policy to limit its exposure to concentrated credit risk.

The 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.

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2011**

**NOTE 4. RECEIVABLES**

Interest receivables for the following funds, represent earnings from interest in State General Fund Investment Pool as of June 30, 2011.

	<b>Fund 264</b>	<b>Fund 776</b>	<b>Fund 777</b>	<b>Fund 098</b>	<b>Fund 514</b>
\$	9,370	-	1,769	331	102

Interest assessment receivables in the Land Suspense Fund of \$3,414,283 represent uncollected amounts which have been billed by the Land Office for late payment of royalties due. Some interest assessments may be abated.

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 SLO for purposes of editing, reconciliation and distribution to beneficiaries; or (2) remitters using electronic reporting send the information directly to the SLO via tape or electronic data interchange (EDI) for ONGARD processing purposes, with cash payments going directly to the SLO royalty account.

Royalties receivable in the Oil and Gas Royalty Fund (agency fund) of \$91,982,216 represent the amount of oil and gas production royalties that had not been received by the Land Office as of June 30, 2011. Amounts are considered fully collectible, thus no allowance account is considered necessary.

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2011**

**NOTE 5. CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance June 30, 2010	Additions	Deletions	<b>Balance June 30, 2011</b>
Governmental Activities				
Land	\$ 252,152	-	-	<b>252,152</b>
Buildings and Library	4,149,716	12,752	-	<b>4,162,468</b>
Furniture, fixtures, and equipment	733,042	12,250	(17,201)	<b>728,091</b>
Data processing	1,885,748	65,354	(38,054)	<b>1,913,048</b>
Automobiles	697,992	72,619	(82,874)	<b>687,737</b>
<b>Totals</b>	<u>7,718,650</u>	<u>162,975</u>	<u>(138,129)</u>	<b>7,743,496</b>
Accumulated depreciation				
Buildings and Library	(3,240,024)	(149,824)	-	<b>(3,389,848)</b>
Furniture, fixtures and equipment	(552,440)	(35,808)	17,201	<b>(571,047)</b>
Data processing	(1,628,726)	(99,194)	37,285	<b>(1,690,635)</b>
Automobiles	(471,621)	(90,276)	80,019	<b>(481,878)</b>
<b>Total accumulated depreciation</b>	<u>(5,892,811)</u>	<u>(375,102)</u>	<u>134,505</u>	<b>(6,133,408)</b>
<b>Capital assets, net</b>	<u>\$ 1,825,839</u>	<u>(212,127)</u>	<u>(3,624)</u>	<b>1,610,088</b>

- The Land Office does not have any debt related to capital assets as of June 30, 2011. Depreciation expense for the agency amounted to \$375,102 and is considered a general governmental expense.

**NOTE 6. COMPENSATED ABSENCES**

The following represents changes in compensated absences for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Deletions	<b>Balance June 30, 2011</b>
Compensated absences	\$ 466,576	467,051	517,230	<b>416,397</b>

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

**NOTE 6. COMPENSATED ABSENCES (CONTINUED)**

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 at June 30, 2011, 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, 2011, consisted of:

Due to General Fund (09800) from Sales Expense (77600)	\$ 6,829
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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)	\$ 9,370
Due to General Fund (09800) from Land Suspense (77700)	\$ 1,769

**NOTE 8. TRANSFERS TO/FROM OTHER GOVERNMENTAL AGENCIES**

Transfers at June 30, 2011, consisted of:

Transfer out to State of New Mexico Tax and Revenue Department (17200/33300) from the Land Office's General Fund (53900/09800) for \$546,100. This amount is the Land Office's portion of the operating budget for ONGARD.

**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

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

**NOTE 9. RETIREMENT PLAN (CONTINUED)**

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](http://www.pera.state.nm.us).

*Funding Policy.* Plan members are required to contribute 8.92% (ranges from 4.00% 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 15.09% (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 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, 2011, 2010 and 2009 were \$1,089,388, \$1,141,630, and \$1,239,000, 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.* The Land Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2011**

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

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

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer’s RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013, the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	1.834%	.917%
FY13	2.000%	1.000%

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 State Land Office’s contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$119,137, \$95,345 and \$91,187, respectively, which equal the required contributions for each year.



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

**NOTE 11. LEASE COMMITMENTS**

The State Land Office leases certain office space from various vendors under operating leases. The expenditures for leases during the year ended June 30, 2011 were \$37,160.

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

**Year Ending June 30,**

2012	\$ 34,620
2013	29,370
2014	<u>29,905</u>
	<u>\$ 93,895</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, 2011, no such claims have been asserted by either federal or state environmental agencies. According to management of the 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., Land Office).

**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 ss 19-110B-1 through 19-10B-8 (1994 Repl) on January 14, 2004. The purpose of this

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

**NOTE 13. JOINT POWERS AGREEMENT (CONTINUED)**

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 33 and 1/3% and EMNRD and TRD 33 and 1/3% 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 2010, 2<sup>nd</sup> Special Session, Chapter 6, Section 7, Items 10 and 11, the Land Office was appropriated \$1,668,000 to procure and implement a land management system for management of public lands. Per Laws of 2010, 2<sup>nd</sup> Special Session, Chapter 6, Section 7, Items 10 and 11, the period of time for expending the appropriation is through fiscal year 2012. The remaining balance on this appropriation was \$1,668,000 at June 30, 2011. All unexpended or unencumbered balance remaining at the end of fiscal 2012 shall revert to the beneficiaries.

**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 former management (in office through December 31, 2010) and a current member of management. The subject leases were in existence for between 8 and 14 years (average 12 years), prior to the hiring date of January 2003 of the member of management (special projects). For the year ended June 30, 2011, the State Land Office received lease revenue of \$9,547 relating to these leases.

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2011**

**NOTE 16. RELATED PARTY TRANSACTIONS (CONTINUED)**

The State Land Office has lease agreements with a current member of management. The subject leases were in existence for 15 or more years, prior to the hiring date of January 2011 of the member of management (surface resources). For the year ended June 30, 2011, the State Land Office received lease revenue of \$50 relating to these leases.

Additionally there are other lease agreements with family members of the former management. The State Land Office received \$3,550 in lease revenue related to this lease. The leases were in existence since 1991/1992 and one lease was issued in 2005.

**NOTE 17. GOVERNMENT FUND BALANCES AND RESTATEMENT OF BEGINNING FUND BALANCE**

The Land Office's fund balances represent: Non-spendable balances which represent that are not in a spendable form; e) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed; and 4) Unassigned balances representing those balances not otherwise classified.

A summary of the nature and purpose of these reserves by fund type at June 30, 2011 follows:

	<b>Non- Spendable</b>	<b>Committed</b>	<b>Assigned</b>	<b>Unassigned</b>	<b>Total Fund Balance</b>
Land Management	\$ -	1,668,000	-	-	1,668,000
System refunds	-	500,000	-	-	500,000
Inventory – supplies	16,272	-	-	-	16,272
Petty cash	400	-	-	-	400
Unassigned	-	-	-	6,829	6,829
Total	<u>\$ 16,672</u>	<u>2,168,000</u>	<u>-</u>	<u>6,829</u>	<u>2,191,501</u>

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2011**

**NOTE 17. GOVERNMENT FUND BALANCES AND RESTATEMENT OF BEGINNING  
FUND BALANCE (CONTINUED)**

Non-spendable Fund Balances. The Land Office has classified amounts representing inventory of supplies in this category.

Committed Fund Balances. The Land Office maintains balances related to statutory provisions.

- Laws of 2011, Chapter 6, 2<sup>nd</sup> Special Session, Section 7, number 10 and number 11 appropriated \$1,668,000 for the development of a Land Management Information System. The funds were expendable in both fiscal years 2011 and 2012 (see Special Appropriations Note 14).
- Section 19-7-62 NMSA 1978, Annual appropriation for refunds; payment from state lands maintenance funds requires the agency refund amounts erroneously collected in accordance with provisions in sections 19-7-59 through 19-7-63 NMSA 1978.

Unassigned Fund Balance is the residual amount of fund balance unexpended and undesignated funds that will be distributed to beneficiaries.

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2011**

**NOTE 17. GOVERNMENT FUND BALANCES AND RESTATEMENT OF BEGINNING FUND BALANCE (CONTINUED)**

**Restatement of Beginning Fund Balance**

GASB Statement No. 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The new hierarchical fund balance classifications are based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds and includes the terms: non-spendable, restricted, committed, assigned, and unassigned. GASB Statement No. 54 was implemented in the current fiscal year. Details of the Land Office’s fund balance classifications and policies are reflected above. The restated balances as of June 30, 2010 are detailed below:

	<b>Non- Spendable</b>	<b>Committed</b>	<b>Unassigned</b>	<b>Total Fund Balance</b>
Land Management	\$ -	1,668,000	-	1,668,000
System refunds	-	500,000	-	500,000
Inventory – Supplies	17,445	-	-	17,445
Petty cash	400	-	-	400
Unassigned	-	-	8,036	8,036
Total	<u>\$ 17,845</u>	<u>2,168,000</u>	<u>8,036</u>	<u>2,193,881</u>

**Spending Policy**

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Land Office’s policy to use restricted resources first. When expenditures/expenses are incurred for purposes, for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State’s policy to spend committed resources first.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
AGENCY FUNDS  
June 30, 2011**

**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 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  
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS  
 June 30, 2011

	Sales Expense Fund	Land Suspense Fund	Oil and Gas Royalty Fund	Royalty Advance Payment Fund	Total
<b>ASSETS</b>					
Interest in State General Fund Investment Pool	\$ 6,829	15,952,289	101,945,352	1,155,443	<b>119,059,913</b>
Investments	-	-	-	10,071,110	<b>10,071,110</b>
Due from Royalty Advance Payment Fund	-	-	9,250,000	-	<b>9,250,000</b>
Receivables					
Royalties	-	-	91,982,216	-	<b>91,982,216</b>
Interest	-	1,769	9,370	102	<b>11,241</b>
Interest assessments	-	3,414,283	-	-	<b>3,414,283</b>
Less allowance for uncollected accounts - interest assessments	-	(3,414,283)	-	-	<b>(3,414,283)</b>
	<u>\$ 6,829</u>	<u>15,954,058</u>	<u>203,186,938</u>	<u>11,226,655</u>	<u><b>230,374,480</b></u>
<b>LIABILITIES</b>					
Vouchers payable	-	373,811	-	-	<b>373,811</b>
Due to Oil and Gas Royalty Fund	-	-	-	9,250,000	<b>9,250,000</b>
Due to external parties	6,829	1,769	9,370	-	<b>17,968</b>
Due to beneficiaries					
Royalties and rentals	-	14,996,228	193,927,568	1,976,655	<b>210,900,451</b>
Deposits held in trust	-	582,250	9,250,000	-	<b>9,832,250</b>
	<u>\$ 6,829</u>	<u>15,954,058</u>	<u>203,186,938</u>	<u>11,226,655</u>	<u><b>230,374,480</b></u>

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - ALL AGENCY FUNDS  
 June 30, 2011**

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>ASSETS</b>				
Interest in State General Fund Investment Pool \$	123,364,521	159,284,842	163,589,450	<b>119,059,913</b>
Investments	8,631,572	1,439,538	-	<b>10,071,110</b>
Due from Royalty Advance Payment Fund	9,250,000	-	-	<b>9,250,000</b>
Receivables				
Oil and gas royalties	42,103,378	91,982,216	42,103,378	<b>91,982,216</b>
Interest	19,261	11,241	19,261	<b>11,241</b>
Interest assessments	3,554,418	-	140,135	<b>3,414,283</b>
Less allowance for uncollected accounts - interest assessments	(3,554,418)	-	(140,135)	<b>(3,414,283)</b>
	<u>\$ 183,368,732</u>	<u>252,717,837</u>	<u>205,712,089</u>	<u><b>230,374,480</b></u>
<b>LIABILITIES</b>				
Vouchers payable	302,482	373,811	302,482	<b>373,811</b>
Due to Maintenance Fund	27,127	11,139	20,298	<b>17,968</b>
Due to Oil and Gas Royalty Fund	9,250,000	-	-	<b>9,250,000</b>
Due to beneficiaries				
Royalties and rentals	164,044,373	252,226,887	205,370,809	<b>210,900,451</b>
Deposits held in trust	9,744,750	106,000	18,500	<b>9,832,250</b>
	<u>\$ 183,368,732</u>	<u>252,717,837</u>	<u>205,712,089</u>	<u><b>230,374,480</b></u>



**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - SALES EXPENSE FUND  
 June 30, 2011**

	Balance June 30, 2010	Additions	Deductions	<b>Balance June 30, 2011</b>
<b>ASSETS</b>				
Interest in State General Fund Investment Pool	\$ 8,036	-	1,207	<b>6,829</b>
Interest Receivable	1	-	1	-
	<u>\$ 8,037</u>	<u>-</u>	<u>1,208</u>	<u><b>6,829</b></u>
<b>LIABILITIES</b>				
Due to Maintenance Fund	\$ 8,037	-	1,208	<b>6,829</b>
	<u>\$ 8,037</u>	<u>-</u>	<u>1,208</u>	<u><b>6,829</b></u>

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - LAND SUSPENSE FUND  
 June 30, 2011**

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>ASSETS</b>				
Interest in State General Fund Investment Pool \$	16,253,538	74,347,601	74,648,850	<b>15,952,289</b>
Receivables				
Interest assessments	3,554,418	-	140,135	<b>3,414,283</b>
Less allowance for uncollected accounts	(3,554,418)	-	(140,135)	<b>(3,414,283)</b>
Interest receivable	2,835	1,769	2,835	<b>1,769</b>
	<u>\$ 16,256,373</u>	<u>74,349,370</u>	<u>74,651,685</u>	<u><b>15,954,058</b></u>
<b>LIABILITIES</b>				
Vouchers payable	\$ 302,482	373,811	302,482	<b>373,811</b>
Due to Maintenance Fund	2,835	1,769	2,835	<b>1,769</b>
Due to beneficiaries				
Royalties and rentals	15,456,306	73,867,790	74,327,868	<b>14,996,228</b>
Deposits held in trust	494,750	106,000	18,500	<b>582,250</b>
	<u>\$ 16,256,373</u>	<u>74,349,370</u>	<u>74,651,685</u>	<u><b>15,954,058</b></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, 2011**

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>ASSETS</b>				
Interest in State General Fund Investment Pool \$	105,949,684	84,165,093	88,169,425	<b>101,945,352</b>
Due from Royalty Advance Payment Fund	9,250,000	-	-	<b>9,250,000</b>
Receivables				
Oil and gas royalties	42,103,378	91,982,216	42,103,378	<b>91,982,216</b>
Interest Receivable	16,255	9,370	16,255	<b>9,370</b>
	<u>\$ 157,319,317</u>	<u>176,156,679</u>	<u>130,289,058</u>	<u><b>203,186,938</b></u>
<b>LIABILITIES</b>				
Due to beneficiaries				
Royalties and rentals	\$ 148,053,062	176,147,309	130,272,803	<b>193,927,568</b>
Due to Maintenance Fund	16,255	9,370	16,255	<b>9,370</b>
Deposits held in trust	9,250,000	-	-	<b>9,250,000</b>
	<u>\$ 157,319,317</u>	<u>176,156,679</u>	<u>130,289,058</u>	<u><b>203,186,938</b></u>

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - ROYALTY ADVANCE  
 PAYMENT FUND  
 June 30, 2011**

	Balance June 30, 2010	Additions	Deductions	<b>Balance June 30, 2011</b>
<b>ASSETS</b>				
Interest in State General Fund Investment Pool \$	1,153,263	772,148	769,968	<b>1,155,443</b>
Investments	8,631,572	1,439,538	-	<b>10,071,110</b>
Interest receivable	170	102	170	<b>102</b>
	<u>\$ 9,785,005</u>	<u>2,211,788</u>	<u>770,138</u>	<u><b>11,226,655</b></u>
<b>LIABILITIES</b>				
Due to Oil and Gas Royalty Fund	\$ 9,250,000	-	-	<b>9,250,000</b>
Due to beneficiaries royalties and rentals	535,005	2,211,788	770,138	<b>1,976,655</b>
	<u>\$ 9,785,005</u>	<u>2,211,788</u>	<u>770,138</u>	<u><b>11,226,655</b></u>

**Report of Independent Auditors on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Mr. Ray Powell  
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 financial statements of the governmental activities, the General 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, 2011, and have issued our report thereon dated October 31, 2011. 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

Management of the State Land Office is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not 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.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify and deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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 provision 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 of other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 31, 2011

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
June 30, 2011**

None.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2011**

None.



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
EXIT CONFERENCE  
Year Ended June 30, 2011**

An exit conference to discuss the results of the audit and the audit report was held on October 21, 2011. In attendance were:

Representing State of New Mexico Commissioner of Public Lands:

Ray Powell, Commissioner of Public Lands  
Bob Jenks, Deputy Commissioner of Public Lands  
Elaine Olah, Assistant Commissioner of Administrative Services  
Margaret Sena, Division Director of Administrative Division

Representing Moss Adams LLP:

Larry Carmony, Partner

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