



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**NEW MEXICO  
COMMISSIONER  
OF PUBLIC LANDS**

**FINANCIAL STATEMENTS  
For the Year Ended June 30, 2013**



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

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
Official Roster	1
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	2-4
Management's Discussion and Analysis	5-11
<b>Basic Financial Statements</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	12
Statement of Activities	13
<b>Governmental Fund Financial Statements</b>	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances with the Statement of Activities	17
Statement of Revenues and Expenditures Budget and Actual - General Fund	18
Statement of Fiduciary Assets and Liabilities – Agency Funds	19
<b>Notes to Financial Statements</b>	20-38
<b>SUPPLEMENTARY INFORMATION</b>	
Combining Schedule of Fiduciary Assets and Liabilities – All Agency Funds	39
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	40
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Agency Fund Descriptions	41
<b>Combining Statement of Changes in Asset and Liabilities -All Agency Funds</b>	
Sales Expense Fund	42
Land Suspense Fund	43
Oil and Gas Royalty Fund-Payment Fund	44
Royalty Advance Payment Fund	45
<b>COMPLIANCE SECTION</b>	
Independent Auditors Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46-47
Summary Schedule of Findings and Responses	48
Exit Conference	49

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

**OFFICIAL ROSTER**

**As of June 30, 2013**

<u><b>Name</b></u>	<u><b>Title</b></u>
Ray Powell	Commissioner of Public Lands
Sunalei Stewart	Deputy Commissioner of Public Lands

**Assistant Commissioners of Public Lands:**

Mike Anaya	Surface Resources
Harry Relkin	General Counsel
Karin Stangl	Communications
Don Britt	Commercial Resources
Ralph Gallegos	Special Projects
Greg Bloom	Oil, Gas and Mineral Resources
Elaine Olah	Administrative Services
John Romero	Field Operations
Christina Cordova	Beneficiary Liaison

**Division Directors:**

Larry Roybal	Oil, Gas and Minerals Division
Donald Martinez	Surface Resources Division
Jim Norwick	Field Operations Division
Thomas Leatherwood	Commercial Leasing Division
Kurt McFall	Royalty Management Division
Lucille Sisneros	Records Management Division
Margaret Sena	Administrative Services Division
Sandra Lopez	Human Resources Division
Martin Davis	Information Technology Division
Steve Trujillo	Facility Management Division



**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the State of New Mexico Commissioner of Public Lands (State Land Office), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the State Land Office's basic financial statements as listed in the table of contents. We have also audited the financial statements of the State Land Office's Agency Funds presented as supplementary information as defined by the Government Accounting Standards Board, in the accompanying individual fiduciary fund financial statements as of and for the year ended June 30, 2013 as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund and the aggregate remaining fund information of the State Land Office, as of June 30, 2013, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above fairly, in all material respects, the respective financial position of the fiduciary funds of the State Land Office as of June 30, 2013, with accounting principles generally accepted in the United States of America.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the State Land Office's financial statements and the budgetary comparison for the general fund. The "other supplemental information" as identified in the table of contents required and presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional statements and schedules listed as "other supplemental information" in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the State Land Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Land Office's internal control over financial reporting and compliance.

*Hinkle & Landers, P.C.*

Hinkle + Landers, PC  
Albuquerque, NM  
October 31, 2013

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
Year Ended June 30, 2013**

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) 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, 2013. 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 STATEMENTS EXPLAINED**

The State Land Office's Basic Financial Statements 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 Position 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 Position reports the assets of the State Land Office and the corresponding claims and liabilities against those assets at June 30, 2013. The difference between the value of the assets and the liabilities is reflected as the value of the net position. Increases or decreases in net position measure whether the financial position of the Department improved or deteriorated. The net position legally limited to a particular use is reported as restricted. The unrestricted net position is comprised of 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.

**Fund Financial Statements**

The Fund Financial Statements that follow the Government-Wide financial statements report on the financial position and changes in financial position of the individual funds used by the State Land Office. 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 State Land Office uses two types of funds to account for its financial activities: Governmental Funds and Fiduciary Funds.

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



**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
 Year Ended June 30, 2013**

**Fiduciary Funds** are used to account for resources the State Land Office holds for others. The State Land Office uses four fiduciary funds. Please refer to Note 1 to the Financial Statements for an explanation of these funds.

**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 for future generations of New Mexicans. The Commissioner of Public Lands is an elected official pursuant to the New Mexico Constitution and does not receive general fund appropriations. 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.

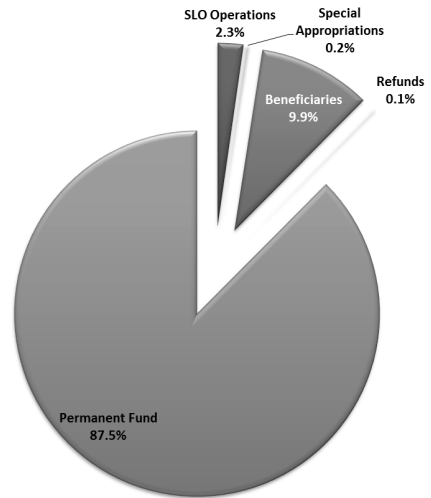
In 2013 the state trust lands generated total revenues of \$577.5 million, a decrease of 11.5%. Revenue earned from renewable and non-renewable sources are tied to a lease and each lease identifies the beneficiary(s) share of the lease. Land Maintenance Fund receipts totaled \$70.9 million from renewable resources, and \$1.1 million from miscellaneous income. In addition to income generated from state trust lands, the State Land Office received federal grant funds of \$16,300. Land Maintenance Funds (LMF) not spent for operations or retained for special appropriations of \$57.4 million or 9.9% were distributed directly to beneficiaries. Nonrenewable resources extracted from state trust lands generated \$529.0 million (97.3% from oil and gas royalties) that were transferred to the Land Grant Permanent Fund (LGPF) at the State Investment Council.

Total beneficiary earnings (in millions) from state trust lands by beneficiary type:

	<u>LMF</u>	<u>LGPF</u>	<u>Total</u>
<b>Common Schools</b>	\$ 44.6	\$452.9	\$ 497.5
<b>Colleges &amp; Universities</b>	\$2.5	\$ 18.1	\$ 20.6
<b>Other Schools</b>	\$ 1.5	\$ 14.4	\$ 15.9
<b>Hospitals</b>	\$ 3.9	\$ 3.7	\$ 7.6
<b>All Other Institutions</b>	\$ 4.9	\$ 16.4	\$ 21.3
<b>TOTAL</b>	<b>\$ 57.4</b>	<b>\$505.5</b>	<b>\$562.9</b>

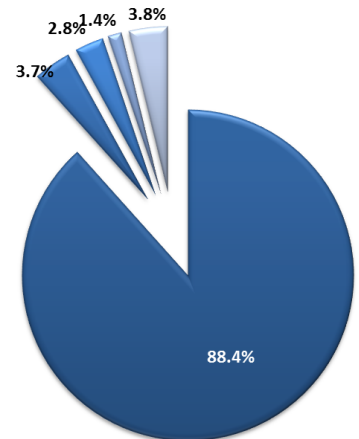
Land Maintenance Funds are distributed directly to beneficiaries at the end of each month. Earnings from royalties are transferred to the Land Grant Permanent Fund and are invested on behalf of the beneficiaries by the State Investment Council who manages the fund. The State Investment Council distributes LGPF earnings to beneficiaries based on

**Distribution of State Trust Land Revenue**



**Revenue Earned by Beneficiary Type**

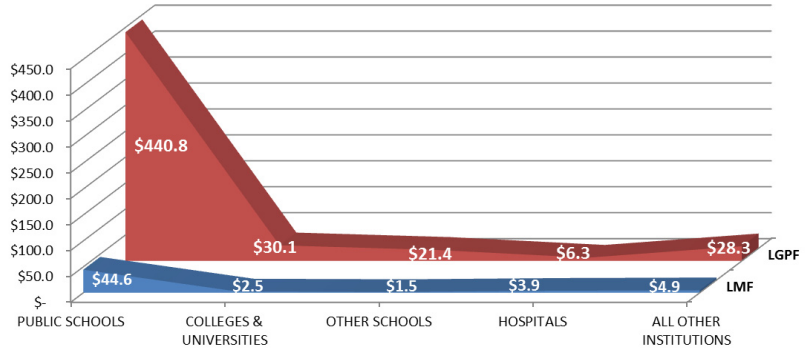
■ COMMON SCHOOLS   ■ COLLEGES & UNIVERSITIES ■ OTHER SCHOOLS  
 ■ HOSPITALS   ■ ALL OTHER INSTITUTIONS



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
Year Ended June 30, 2013**

LMF & LGPF Distributions by Beneficiary Type

the formula set in the Constitution. Distributions from the Land Grant Permanent Fund (LGPF) totaled \$526.8 million<sup>1</sup> in FY 2013<sup>1</sup>. Distributions to state trust land beneficiaries from the Land Maintenance Fund and the Land Grant Permanent Fund totaled \$584.3 million. The following chart shows the distribution of funds (in millions) from the Land Maintenance Fund of \$57.4 million and the Land Grant Permanent Fund of \$526.8 million by beneficiary type during FY 2013.



<sup>1</sup> State Investment Council: *Land Grant Permanent Fund; Fund Balance and Income Distribution Summary for the Fiscal Year Ended June 30, 2013 Un-audited; 7/24/2013*. For more information refer to the State Investment Council Financial Statements as of June 30, 2013.

**ANALYSIS OF THE AGENCY'S FINANCES**

**Net Position and Changes in Net Position** (*previously Net Assets and Changes in Net Assets*)

The following table summarizes the net position of the agency for the fiscal year ended June 30, 2013, with comparative balances for the fiscal years ended June 30, 2012.

<b>Comparative Analysis of Statement of Net Position</b>				
	<b>FY 2013</b>	<b>FY 2012</b>	<b>\$ Change</b>	<b>% Change</b>
<i>Current and other assets</i>	10,286,316	9,671,477	614,839	6.4%
Capital assets less accumulated depreciation	1,595,743	1,746,339	(150,596)	-8.6%
<b>Total Assets</b>	<b>11,882,059</b>	<b>11,417,816</b>	<b>464,243</b>	<b>4.1%</b>
<b>Liabilities</b>	<b>4,028,086</b>	<b>3,168,904</b>	<b>859,182</b>	<b>27.1%</b>
<b>Net Position</b>				
Investments in capital assets	1,595,743	1,746,339	(150,596)	-8.6%
Restricted - Special Appropriations	6,204,076	6,372,731	(168,655)	-2.6%
Unrestricted	54,154	129,842	(75,688)	-58.3%
<b>Total Net Position</b>	<b>7,853,973</b>	<b>8,248,912</b>	<b>(394,939)</b>	<b>-4.8%</b>
<b>Total Liabilities and Net Position</b>	<b>11,882,059</b>	<b>11,417,816</b>	<b>464,243</b>	<b>4.1%</b>

Net position decreased by 4.8% in FY 2013 and reflects the decreased value of capital assets due to depreciation and retirement of assets. Liabilities increased by 27.1% primarily due to the increase in the reappropriation to beneficiaries. The amount that will be reappropriated increased in FY 2013 by \$.9 million as estimated expenditures were less than anticipated.

The government-wide financial statements also include the Statement of Activities. This statement is focused on the cost of various activities that are provided by the agency's general

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
 Year Ended June 30, 2013**

and other revenues. This section is intended to summarize and simplify the users' analysis of the cost of operating the State Land Office and amounts due to 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 change in net position in agency for the fiscal year ended June 30, 2013, with comparative balances for the fiscal years ended June 30, 2012.

<b>Comparative Analysis of Statement of Activities</b>				
	<b>FY 2013</b>	<b>FY 2012</b>	<b>\$ Change</b>	<b>% Change</b>
General government expenses	(13,014,049)	(12,808,381)	(205,668)	1.6%
Program revenues	15,918,723	19,413,396	(3,494,673)	-18.0%
<b>Net (Expense) Revenue</b>	<b>2,904,674</b>	<b>6,605,015</b>	<b>(3,700,341)</b>	<b>-56.0%</b>
General revenue and (expenses)				
Transfers in				
Transfers out	(1,021,733)	(498,900)	(522,833)	104.8%
Other income	35,702	253,323	(217,621)	-85.9%
Unrestricted investment earnings	327,879	214,688	113,191	52.7%
Reapportionable to beneficiaries	(2,673,642)	(1,733,726)	(939,916)	54.2%
Gain on sale of capital assets	32,181	23,320	8,861	38.0%
<b>Total General Revenues and Transfers</b>	<b>(3,299,613)</b>	<b>(1,741,295)</b>	<b>(1,558,318)</b>	<b>89.5%</b>
Change in net position	(394,939)	4,863,720	(5,258,659)	-108.1%
Net position, beginning	8,248,912	3,385,192	4,863,720	143.7%
<b>Net Position, Ending</b>	<b>7,853,973</b>	<b>8,248,912</b>	<b>(394,939)</b>	<b>-4.8%</b>

**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 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 2 NMAC 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 State Land Office is a non-general fund agency and reserves revenue needed to support operations or special appropriations. Since amounts are held to fund projected expenditures any variance as of June 30 will revert to the beneficiaries in accordance with 19-1-13 NMSA 1978. The 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 (LMF) 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

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
Year Ended June 30, 2013**

Administration with review by the Legislative Finance Committee. Over the course of the year the State Land Office may adjust its budget as authorized in the General Appropriations Act or through other acts of the legislature.

During the fiscal year revenue supported budget increases in the amount of \$353,382 as follows:

- **\$60,000—Litigation Expenses:** increased from LMF to cover unanticipated cost increase for litigation expenses for expert witness and court reporting.
- **\$286,958—Bureau of Reclamation, Middle Rio Grande Restoration:** from federal funds for a grant received October 2012 to restore a portion of the Middle Rio Grande within the Albuquerque Reach.
- **\$6,424—Insurance Proceeds** paid for an ongoing claim to make repairs at the Dixon Apple Orchard.

In addition to budget increases, the State Land Office transferred budget between appropriated budget categories.

- **(\$50,000) from Salaries and Benefits:** difficulties in recruiting and filling positions resulted in vacancy savings that could be used in contractual services.
- **\$110,000 to Contractual Services:** to allow for additional contractual services in the last quarter of the fiscal year.
- **(\$60,000) from Other Costs:** to shift projected unexpended funds to contractual services.

**CAPITAL ASSETS**

The Agency's investment in capital assets as of June 30, 2013, amounted to \$1,746,399 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 current period was \$150,597 or 8.6%.

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**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
 Year Ended June 30, 2013**

The decrease in capital assets is due to the retirement of assets. The following table illustrates the change from FY 2012 to FY 2013.

<b>Comparative Analysis of Capital Assets</b>				
	<b>FY 2013</b>	<b>FY 2012</b>	<b>\$ Change</b>	<b>% Change</b>
Land	\$ 252,152	\$ 252,152	-	0.0%
Buildings and library	4,159,846	4,159,846	-	0.0%
Furniture, fixtures and equipment	836,899	783,218	53,681	6.9%
Data processing	1,894,916	2,194,917	(300,001)	-13.7%
Automobiles	716,746	750,954	(34,208)	-4.6%
Less: accumulated depreciation	(6,264,816)	(6,394,749)	129,933	-2.0%
<b>Capital assets, net</b>	<b>\$ 1,595,743</b>	<b>\$ 1,746,338</b>	<b>(150,595)</b>	<b>-13.4%</b>

**CURRENTLY KNOWN FACTS DECISIONS OR CONDITIONS OF FUTURE SIGNIFICANCE**

Trust revenue from oil and gas, both from lease sale bonuses and royalties, reflected the optimism of regional industry operators, the national economy, and international events. Gas and Oil prices are expected to decline in the coming years, but have not fallen to predicted levels in the first quarter of FY 2013. *Revenue projections remain volatile and will be monitored monthly and projections updated at least quarterly.*

Horizontal drilling is providing new challenges for compliance agencies and in revenue processing. Lateral wells are not necessarily confined to a single land owner or lease. As these wells proliferate, it is expected that changes to systems and reporting requirements will be needed.

Two actions filed and not yet decided have the potential for significant settlement or reclamation costs to the Trust.

- Young Ranch a.k.a. Dixon Apple Orchard – damage caused by the Las Conchas Fire and subsequent thousand-year flood damaged state trust land and resulted in the leasee’s attempt to assign a business lease on the site and recover the value of improvements on the site. The complaint filed by the leasee under an administrative procedure to force assignment of the lease contrary to the terms of the lease was rejected. The leasee has appealed the decision in district court. In the meantime, additional damage from recent floods further damaged the property. No additional claims have been filed. Insurance claims have not been completely settled (the portion claimed has been paid and is held in suspense until the case is settled).
- Turner Branch has filed suit to claim a portion of a settlement reached with BP Oil related to payment of royalties for the period from 1997 through 2009. The firm asserts that the settlement was entered under its contract in effect at the time of settlement and the firm was entitled to a portion of the settlement as fees and cost.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
Year Ended June 30, 2013**

**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 State Land Office's accountability. If you have questions about the report or need additional financial information contact the agency's Assistant Commissioner for 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 POSITION  
 As of June 30, 2013**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current assets	
Interest in the State General Fund Investment Pool	\$ 10,230,919
Petty cash	400
Interest receivable	1,191
Federal funds receivable	16,300
Supplies inventory	9,694
Due from other funds	<u>27,812</u>
<b>Total current assets</b>	<u>10,286,316</u>
Capital assets, net of accumulated depreciation	<u>1,595,743</u>
<b>Total assets</b>	<u><u>\$ 11,882,059</u></u>
 <b>LIABILITIES AND NET POSITION</b>	
Current liabilities	
Accounts payable	\$ 678,339
Accrued payroll and payroll liabilities	204,086
Compensated absences payable	472,019
Due to beneficiaries	<u>2,673,642</u>
<b>Total current liabilities</b>	<u>4,028,086</u>
Net Position	
Invested in capital assets	1,595,743
Restricted	6,204,076
Unrestricted	<u>54,154</u>
<b>Total net position</b>	<u>7,853,973</u>
<b>Total liabilities and net position</b>	<u><u>\$ 11,882,059</u></u>

See Notes to Financial Statements

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 STATEMENT OF ACTIVITIES  
 For The Year Ended June 30, 2013**

	<u><b>Governmental Activities</b></u>
<b>Expenses</b>	
General government	\$ <u>13,014,049</u>
<b>Less: Program revenues</b>	
Charges for services	15,918,723
Net program revenue (expense) and change in net position	<u>2,904,674</u>
<b>General revenues and (transfers)</b>	
Gain on sale of capital assets	32,181
Other income	35,702
Transfers to other state agencies	(1,021,733)
Unrestricted investment earnings	327,879
Reapportionable to other state beneficiaries	<u>(2,673,642)</u>
<b>Total general revenues and transfers</b>	<u>(3,299,613)</u>
<b>Change in net position</b>	(394,939)
Net position, beginning of year	<u>8,248,912</u>
<b>Net position, end of year</b>	\$ <u><u>7,853,973</u></u>

See Notes to Financial Statements



**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 As of June 30, 2013**

	<u><b>General Fund</b></u>
<b>ASSETS</b>	
Interest in the State General Fund Investment Pool	\$ 10,230,919
Petty cash	400
Interest receivable	1,191
Federal funds receivable	16,300
Supplies inventory	9,694
Due from other funds	<u>27,812</u>
<b>Total assets</b>	<b>\$ <u><u>10,286,316</u></u></b>
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 678,339
Accrued payroll and payroll liabilities	204,086
Due to beneficiaries	<u>2,673,642</u>
<b>Total liabilities</b>	<b><u>3,556,067</u></b>
Fund Balances:	
Non-Spendable	
Supplies	9,694
Petty cash	400
Spendable	
Committed	6,704,076
Unassigned	<u>16,079</u>
<b>Total fund balances</b>	<b><u>6,730,249</u></b>
<b>Total liabilities and fund balances</b>	<b>\$ <u><u>10,286,316</u></u></b>

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 POSITION  
 As of June 30, 2013**

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

<b>Total Fund Balances - Governmental Funds (Governmental Funds Balance Sheet)</b>	\$	6,730,249
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Amounts reported for governmental activities in the Statement of Net Position are different because

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

Land	\$	252,152	
Buildings and library		4,159,846	
Furniture , fixtures and equipment		836,899	
Data processing		1,894,916	
Automobiles		716,746	
Accumulated depreciation		<u>(6,264,816)</u>	
<b>Total capital assets</b>			1,595,743

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>(472,019)</u>
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<b>Net Position of Governmental Activities (Statement of Net Position)</b>	\$	<u><u>7,853,973</u></u>
----------------------------------------------------------------------------	----	-------------------------

See Notes to Financial Statements

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 For The Year Ending June 30, 2012**

	<u><b>General Fund</b></u>
Revenues	
Other state funds	\$ 679,066
Rental income	15,239,657
Other gifts and grants	6,424
Federal grant	16,300
Interest income	327,879
Other income	46,922
<b>Total revenues</b>	<u>16,316,248</u>
Expenditures, current	
Personal services	7,486,583
Employee benefits	2,740,763
In-state travel	193,467
Maintenance and repairs	154,965
Supplies	620,134
Contractual services	741,816
Operating costs	594,191
Out-of-state travel	32,360
Capital outlay	232,187
<b>Total expenditures</b>	<u>12,796,466</u>
Excess revenues over expenditures	<u>3,519,782</u>
Other financing sources (uses)	
Transfer to other state agencies	(1,021,733)
Reapportionable to other beneficiaries	(2,673,642)
<b>Total other financing uses</b>	<u>(3,695,375)</u>
<b>Net change in fund balance</b>	(175,593)
Fund balance, beginning of year	<u>6,905,842</u>
<b>Fund balance, end of year</b>	<u>\$ 6,730,249</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  
 For The Year Ended June 30, 2013**

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

**Net change in net position  
 (Statement of Activities)** \$ (394,939)

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 (decrease) in the liability for the year is 68,750

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

Capital outlay	\$	(232,187)	
Depreciation expense		<u>381,020</u>	
Difference between capital outlay and depreciation expense			148,833

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 on disposal of capital assets is (32,181)

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 33,944

**Change in fund balances - Governmental Funds  
 (Statement of Revenues, Expenditures and Changes in Fund Balance)** \$ (175,593)

See Notes to Financial Statements

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LAND  
 STATEMENT OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL -  
 GENERAL FUND  
 For The Year Ended June 30, 2013**

<b>General Fund</b>				
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
<b>Revenues</b>				
Fund balance	\$ -	-	-	-
Other state funds	574,600	574,600	679,066	104,466
Rental income	15,438,600	15,498,600	15,239,657	(258,943)
Insurance Assessment	-	6,400	6,424	24
Federal grant	-	287,000	16,300	(270,700)
Interest income	236,500	236,500	327,879	91,379
Miscellaneous revenue	44,700	44,700	46,922	2,222
<b>Total budgeted revenues</b>	<b>16,294,400</b>	<b>16,647,800</b>	<b>16,316,248</b>	<b>(331,552)</b>
<b>Expenditures</b>				
General government				
Personal services & benefits	10,531,400	10,521,400	10,227,346	294,054
Contractual services	1,301,900	1,558,300	741,816	816,484
Other	1,967,400	2,074,400	1,827,304	247,096
Other financial uses	2,493,700	2,493,700	1,021,733	1,471,967
<b>Total budgeted expenditures</b>	<b>16,294,400</b>	<b>16,647,800</b>	<b>13,818,199</b>	<b>2,829,601</b>
Transfers from other funds	-	-	-	-
Reapportionment	-	-	2,673,642	(2,673,642)
<b>Total expenditures</b>	<b>16,294,400</b>	<b>16,647,800</b>	<b>16,491,841</b>	<b>155,959</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ -</b>	<b>-</b>	<b>(175,593)</b>	<b>(175,593)</b>

See Notes to Financial Statements

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS  
 As of June 30, 2013**

		<b>Agency Funds</b>
<hr/>		
<b>ASSETS</b>		
Interest in the State General Fund Investment Pool	\$	143,716,011
Investments		11,605,313
Due from Royalty Advance Payment Fund		9,250,000
Receivables		
Interest		11,833
Royalties		114,313,863
Interest assessments		3,805,483
Allowance for uncollectible accounts		(1,183,442)
		<hr/>
<b>Total assets</b>	<b>\$</b>	<b>281,519,061</b>
<hr/> <hr/>		
<b>LIABILITIES</b>		
Accounts payable	\$	237,836
Due to Oil and Gas Royalty Fund Fund		9,250,000
Due to general fund		28,960
Due to beneficiaries		
Royalties and rentals		262,177,515
Deposits held in trust		9,824,750
		<hr/>
<b>Total liabilities</b>	<b>\$</b>	<b>281,519,061</b>
<hr/> <hr/>		

See Notes to Financial Statements

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

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

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

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

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

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

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

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

*Basic Financial Statements* – The basic financial statements include both government-wide (based on the State Land Office as a whole) and fund financial statements. The reporting model focus is on either the State Land Office as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide statement of Net Position, 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.

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

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

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 State Land Office does not currently employ indirect cost allocation systems.

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

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate the State Land Office's actual financial activity in relation to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

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

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

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

**A. Governmental Funds**

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

**B. Fiduciary Funds**

*Agency Funds.* Agency funds are used to account for assets held by the State Land Office as an agent for individuals, private organizations, other governments and/or



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

other funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The agency funds of the State Land Office are:

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

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

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

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

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

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

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

*Modified Accrual.* All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State Land Office considers revenues to be available if they are collected within sixty days during the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

The General Appropriation Act of 2004 established the modified accrual basis of accounting for governmental funds in accordance with the Manual of Model Accounting Practices issued by the State Land Office 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 State Land Office of Finance and Administration, an encumbrance can be charged against that budget. However, when the appropriation period has lapsed, so does the authority for the budget.

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

*Budgetary Data.* The State Legislature makes annual appropriations to the State Land Office. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the General Fund. 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 2012, Section 3, Subsections M, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for the accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

The State Land Office is required to submit a budget report for the General Fund 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 State Land Office also details revenues and expenditures or expenses for the preceding year.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

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, 2013.

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

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

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

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

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

*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.

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

*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

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

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

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

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

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

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

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

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

At June 30, 2013, the State Land Office had no claims for which the Risk Management Division has returned as not covered that would become the responsibility of the State Land Office.

*Government Fund Reporting.* In the governmental fund financial statements, fund balances are classified as non-spendable, 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.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

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, 2013, follows:

***Nonspendable—Supplies*** This reserve was created to represent the portion of fund balance that is not available for expenditures because the State Land Office 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 New Mexico 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 and extended per Laws 2012, Chapter 19, Section 7, number 13.

***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 2012, Chapter 19, Section 7, number 12.

***Spendable—Committed to Microfilm State Land Records*** This reserve was created to scan frequently accessed inactive records and begin conversion of microfilmed records to images to preserve permanent records and improve accessibility per Laws of 2012, Chapter 19, Section 5.

***Spendable—Committed for ONGARD Modernization*** This reserve was created to stabilize the existing system and begin modernizing the oil and natural gas administration and revenue database per Laws of 2012, Chapter 19, Section 7, Item 15.

***Spendable—Committed for Capital Projects*** This reserve was created for electrical upgrades, including the purchase and installation of electric panels, for planning and designing security upgrades at the front entryway, and to plan and design the renovation of Morgan Hall per Laws of 2013, Chapter 226, Section 55, Items 1, 2, and 3.

***Spending Policy*** When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the agency'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

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

**Deferred Outflows/Inflows of Resources** In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applied to a future period and so will not be recognized as an expense or expenditure until then. The State Land Office has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applied to a future period and so will not be recognized until then. The State Land Office has no items that meet this criterion.

**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 State Land Office 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 State Land Office's perspective, the cash balances are non-interest bearing and stated at cost.

The State Land Office has an account at Lea County Bank, which had a balance of \$13,406 as of June 30, 2013, which does not exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage limits. As of June 30, 2013, the account has outstanding checks of \$13,406, which results in a zero book balance.

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**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2013**

As of June 30, 2013, cash and cash equivalents consisted of the following:

<u>Account Account Name/Type</u>	<u>Account Number</u>	<u>Balance per Financial Statements</u>
<b>General Fund</b>		
On deposit with the State Treasurer		
Land Maintenance Fund	539-09800	\$ 10,230,919
Petty cash	N/A	400
<b>Total - General Fund</b>		<u>10,231,319</u>
<b>Agency Funds</b>		
On deposit with the State Treasurer		
Oil and Gas Royalty Fund	539-26400	127,558,282
Sales Expense Fund	539-77600	16,079
Land Suspense Fund	539-77700	14,981,887
Royalty Advance Payment Fund	539-51400	1,159,763
<b>Total - Agency Funds</b>		<u>143,716,011</u>
<b>Total Cash and Cash Equivalents</b>		<u>\$ <b>153,947,330</b></u>

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

<u>Account Name/Type</u>	<u>Balance Per Depository</u>	<u>Deposits in Transit (Refunds not Recorded)</u>	<u>Balance per Financial Statements</u>
<b>General Fund</b>			
On deposit with the State Treasurer			
Land Maintenance Fund	\$ 10,230,919	-	10,230,919
Petty cash	400	-	400
<b>Total - General Fund</b>	<u>10,231,319</u>	<u>-</u>	<u>10,231,319</u>
<b>Agency Funds</b>			
On deposit with the State Treasurer			
Oil and Gas Royalty Fund	127,558,282	-	127,558,282
Sales Expense Fund	16,079	-	16,079
Land Suspense Fund	14,981,887	-	14,981,887
Royalty Advance Payment Fund	1,159,763	-	1,159,763
<b>Total - Agency Funds</b>	<u>143,716,011</u>	<u>-</u>	<u>143,716,011</u>
<b>Total Cash and Cash equivalents</b>	<u>\$ <b>153,947,330</b></u>	<u>-</u>	<u><b>153,947,330</b></u>

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

**NOTE 3. STATE GENERAL FUND INVESTMENT POOL**

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

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

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

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

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

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



**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

**NOTE 4. INTEREST IN THE GENERAL FUND INVESTMENT POOL**

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

At June 30, 2013, the State Land Office had the following invested in the General Fund Investment Pool:

General Fund Investment Pool	\$10,230,919
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Interest Rate Risk – The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk – The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2013.

**NOTE 5. 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 \$11,605,313. 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 State Land Office are uninsured and unregistered and there is no regulatory oversight on the Investment Funds.

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

Mutual funds, external investment pools, and securities underlying reverse repurchase agreements are not exposed to custodial credit risk.

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

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

*Concentration of Credit Risk.* Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2013**

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

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

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

**NOTE 6. RECEIVABLES**

Interest receivables for the following funds, represent earnings from interest in State Treasurer Investment Pool as of June 30, 2013.

<b>Receivables</b>	<b>Amount</b>
<b>General Fund</b>	\$ <u><u>1,191</u></u>
<b>Agency Funds</b>	
Oil and Gas Royalty Fund	2
Sales Expense Fund	1,817
Land Suspense Fund	9,914
Royalty Advance Payment Fund	<u>100</u>
<b>Total - Agency Funds</b>	<u><u>11,833</u></u>
<b>Total Receivables</b>	\$ <u><u>13,024</u></u>

Interest assessment receivables in the Land Suspense Fund of \$1,183,442 represent uncollected amounts which have been billed by the State 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 State Land Office 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 \$114,313,863 represent the amount of oil and gas production royalties that had not been received by the State Land Office as of June 30, 2013. 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, 2013**

Federal funds receivable in the Maintenance Fund of \$16,300 represent the amount expended for the State Trust Land Bosque Riparian Restoration and Outreach Project that had not been reimbursed to the State Land Office as of June 30, 2013. Amounts are considered fully collectible, thus no allowance account is considered necessary.

**NOTE 7. CAPITAL ASSETS**

A summary of changes in capital assets follows:

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>
Capital assets not depreciated:				
Land	\$ 252,152	-	-	252,152
	252,152	-	-	252,152
Capital assets depreciated:				
Buildings and library	4,159,846	-	-	4,159,846
Furniture, fixtures and equipment	783,218	105,668	(51,987)	836,899
Data processing	2,194,917	38,321	(338,322)	1,894,916
Vehicles	750,954	88,198	(122,406)	716,746
Total capital assets being depreciated	<u>7,888,935</u>	<u>232,187</u>	<u>(512,715)</u>	<u>7,608,407</u>
Total capital assets	<u>8,141,087</u>	<u>232,187</u>	<u>(512,715)</u>	<u>7,860,559</u>
Less accumulated depreciation:				
Buildings and library	(3,534,606)	(145,241)	-	(3,679,847)
Furniture, fixtures and equipment	(591,287)	(40,142)	51,965	(579,464)
Data processing	(1,776,243)	(102,928)	338,322	(1,540,849)
Vehicles	(492,613)	(92,708)	120,664	(464,657)
Total accumulated depreciation	<u>(6,394,749)</u>	<u>(381,018)</u>	<u>510,951</u>	<u>(6,264,816)</u>
Net capital assets	<u>\$ 1,746,338</u>	<u>(148,831)</u>	<u>(1,764)</u>	<u>1,595,743</u>

The State Land Office does not have any debt related to capital assets as of June 30, 2013. Depreciation expense for the agency amounted to \$381,020 and is considered a general governmental expense.

The State Land Office received proceeds of \$33,944 on the sale of capital assets resulting in a net gain of \$32,181.

**NOTE 8. COMPENSATED ABSENCES**

The following represents changes in compensated absences for the year ended June 30, 2013:

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>	<u>Due Within One Year</u>
Compensated absences	\$ 416,397	535,800	(480,178)	472,019	472,019

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.

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

**NOTE 9. INTERFUND PAYABLES/RECEIVABLES**

<u>Fund</u>	<u>Due To</u>		<u>Due From</u>		
	<u>SHARE #</u>	<u>Amount</u>	<u>Fund</u>	<u>SHARE #</u>	<u>Amount</u>
Due to Oil & Gas	26400	\$ (9,250,000)	Advance Royalty	51400	9,250,000
This amount will be transferred and invested with the State Investment Council					
Due to General Fund	9800	(16,079)	Sales Expense	77600	16,079
This amount is interest paid to funds to be transferred to the general fund					
Due to General Fund	9800	(11,733)	Oil and Gas	26400	11,733
Due to General Fund	9800	<u>(1,191)</u>	Land Suspense	77700	<u>1,191</u>
These interfund balances are a result of reimbursement owed between the funds and are expected to be paid within one year.					
Total Interfund payables/receivables		\$ <u>(9,279,003)</u>			<u>9,279,003</u>

**NOTE 10. TRANSFERS TO/FROM OTHER GOVERNMENTAL AGENCIES**

Transfers at June 30, 2013, consisted of:

<u>Fund</u>	<u>Transfers Out</u>		<u>Transfers In</u>			<u>#</u>
	<u>SHARE #</u>	<u>Amount</u>	<u>Fund</u>	<u>SHARE #</u>	<u>Amount</u>	
General Fund	9800	\$ (493,700)	Tax and Revenue Dept	17200	493,700	1
General Fund	9800	<u>(528,033)</u>	Tax and Revenue Dept	17200	<u>528,033</u>	2
		\$ <u>(1,021,733)</u>			<u>1,021,733</u>	

Transfer 1 is the State Land Office's portion of the operating budget for ONGARD.  
Transfer 2 is related to the ONGARD modernization.

**NOTE 11. PENSION PLAN-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

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

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

**Funding Policy.** Plan members are required to contribute 8.92% (ranges from 3.83% 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, 2013, 2012 and 2011 were \$1,068,230, \$936,890, and \$1,089,388, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE 12. POST-EMPLOYMENT BENEFITS—STATE RETIREE HEALTH CARE PLAN**

**Plan Description.** The State 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.

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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2013**

choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended **June 30, 2013**, the statute required each participating employer to contribute **2.0%** of each participating employee's annual salary; each participating employee was required to contribute **1.0%** of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The State Land Office's contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$141,758, \$127,712 and \$119,137, respectively, which equal the required contributions for each year.

**NOTE 13. LEASE COMMITMENTS**

The State Land Office leases certain office space and equipment from various vendors under operating leases. The expenditures for leases during the year ended June 30, 2013 were \$113,814. Future minimum lease payments under these operating leases are as follows:

<u>For the Year Ended June 30</u>	<u>Amounts</u>
2014	\$ 102,991
2015	79,442
2016	30,065
2017	18,484
<b>Total</b>	<b>\$ 230,982</b>

**NOTE 14. 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, 2013, no such claims have been asserted by either federal or state environmental agencies. According to management of the State Land Office, if such a claim were filed, the State would have the right to seek contribution from operators, arrangers and transporters at the site. In addition, the State might be able to reach a settlement agreement with the environmental agency and allow the State to pursue its claims against the other potentially responsible parties. As holder of the legal title to the state lands, the State of New Mexico alone could

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

be liable for the costs of clean-up in the absence of any other potentially responsibility party. However, there is no existing case law to determine if this liability would be the responsibility of the State of New Mexico or the assets of the trust whose beneficiaries hold equitable title to the state lands (i.e., State Land Office). During the course of normal operations, the State Land Office has various claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of general counsel and management that the likelihood is remote of any potential liabilities to be material to the financial statements as of June 30, 2013.

**NOTE 15. JOINT POWERS AGREEMENTS**

STATE OF NEW MEXICO ONGARD SYSTEM

The Tri-Agencies – Energy Minerals & Natural Resources (EMNRD), Taxation & Revenue State 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 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-Agencies are 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 Department.

**NOTE 16. SPECIAL APPROPRIATIONS**

Laws of 2010, 2<sup>nd</sup> Special Session, Chapter 6, Section 7, Subsection 10, the State Land Office was appropriated \$1,335,000 to procure and implement a land management system for management of public lands. Per Laws of 2012, 2<sup>nd</sup> Session, Chapter 19, Section 7, Items 12 the period of time for expending the appropriation was extended through fiscal year 2014. The remaining balance on this appropriation is \$1,217,838 at June 30, 2013. All unexpended or unencumbered balance remaining at the end of fiscal 2014 shall revert to the beneficiaries.

Laws of 2012, 2<sup>nd</sup> Session, Chapter 19, Section 7, Item 12, the State Land Office was appropriated \$2,332,000 to complete the implementation of the land information management system contingent on the appropriation contained in Subsection 10 of Section 7 of Chapter 6 of Laws 2010, being fully expended. The period of time for expending the appropriation is through fiscal year 2014. The remaining balance on this appropriation was \$2,332,000 at June 30, 2013. All unexpended or unencumbered balance remaining at the end of fiscal 2014 shall revert to the beneficiaries.

Laws of 2012, Chapter 19, Section 7, Item 15, the State Land Office was appropriated \$2,000,000 to stabilize the existing system and begin modernizing the oil and natural gas administration and revenue database. The period of time for expending the appropriation is through fiscal year 2014. The remaining balance on this appropriation

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

was \$1,471,967 at June 30, 2013. All unexpended or unencumbered balance remaining at the end of fiscal 2014 shall revert to the beneficiaries.

Laws of 2012, 2<sup>nd</sup> Session, Chapter 19, Section 5, the State Land Office was appropriated \$706,000 to scan frequently accessed inactive records and begin conversion of microfilmed records to images to preserve permanent records and improve accessibility. The period of time for expending the appropriation is through fiscal year 2014. The remaining balance on this appropriation was \$609,096 at June 30, 2013. All unexpended or unencumbered balance remaining at the end of fiscal 2014 shall revert to the beneficiaries.

**NOTE 17. CAPITAL PROJECTS**

Laws of 2013, Chapter 226, Section 55, Item 1, the State Land Office was appropriated \$375,000 for electrical upgrades, including the purchase and installation of electric panels. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation was \$375,000 at June 30, 2013. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

Laws of 2013, Chapter 226, Section 55, Item 2, the State Land Office was appropriated \$105,000 for planning, designing, and demolishing and for security construction upgrades at the front entryway, including replacement of exterior entry flooring and a front entry enclosure with security doors and cameras. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation was \$105,000 at June 30, 2013. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

Laws of 2013, Chapter 226, Section 55, Item 3, the State Land Office was appropriated \$90,000 to plan and design the renovation of Morgan Hall. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation was \$90,000 at June 30, 2013. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

**NOTE 18. GOVERNMENTAL FUND BALANCES**

The State Land Office's fund balances represent: Committed Purposes which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature. A summary of the nature and purposes of these reserves by fund type at June 30, 2013 follows:

The amounts reported as committed in the governmental fund balances for the land management system, microfilm state land records, Capital Projects, and ONGARD modernization are reported as restricted net position in the government-wide statement of net position.



**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 NOTES TO FINANCIAL STATEMENTS  
 Year Ended June 30, 2013**

<u>Description</u>	<u>Nonspendable</u>	<u>Committed Purposes</u>
General Fund		
Supplies	\$ 9,694	-
Petty Cash	400	-
Refunds - NMSA 1978, Section 19-7-62	-	500,000
Land Management System - Laws 2012, Section 19-7-13	-	1,217,838
Land Management System - Laws 2012, Section 19-7-12	-	2,332,000
Microfilm State Land Records - Laws 2012, Section 19-5	-	1,471,967
Capital Projects	-	570,000
ONGARD Modernization - Laws 2012, Section 19-7-15	-	609,096
Insurance Proceeds - Dixon Apple Orchard	-	3,175
Total Fund Balance	<u>\$ 10,094</u>	<u>6,704,076</u>

**NOTE 19. FEDERAL GRANT**

Grant Agreement NO. R11AP40093 between The Bureau of Reclamation and The NM State Land Office awarded \$298,934 for the State Trust Land Bosque Riparian Restoration and Outreach Project. The project seeks to build on past and current projects under the River Ecosystem Restoration Initiative and comprise holistic project goals that seek to restore sustainability to the riparian system through restoration of vegetative communities and natural fluvial processes. The period of time for expending the grant is through fiscal year 2014. The remaining balance on this grant was \$270,658 at June 30, 2013.

**NOTE 20. CONFLICT OF INTEREST**

The NM 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 21. RELATED PARTY TRANSACTIONS**

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, 2013, the State Land Office received lease revenue of \$50 relating to these leases.

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS  
 As of June 30, 2013**

	<b>Sales Expense Fund</b>	<b>Land Suspense Fund</b>	<b>Oil and Gas Royalty Fund</b>	<b>Royalty Advance Payment Fund</b>	<b>Total</b>
<b>ASSETS</b>					
Interest in the State General Fund Investment Pool	\$ 16,079	14,981,887	127,558,282	1,159,763	143,716,011
Investments	-	-	-	11,605,313	11,605,313
Due from Royalty Advance Payment Fund	-	-	9,250,000	-	9,250,000
Receivables					
Royalties	-	-	114,313,863	-	114,313,863
Interest	2	1,817	9,914	100	11,833
Interest assessments	-	3,805,483	-	-	3,805,483
Less allowance for uncollected accounts-interest assessments	-	(1,183,442)	-	-	(1,183,442)
	<u>\$ 16,081</u>	<u>17,605,745</u>	<u>251,132,059</u>	<u>12,765,176</u>	<u>281,519,061</u>
<b>LIABILITIES</b>					
Vouchers payable	\$ (1,148)	122,107	116,877	-	237,836
Due to Oil and Gas Royalty Fund	-	-	-	9,250,000	9,250,000
Due to general fund	17,229	1,817	9,914	-	28,960
Due to beneficiaries					
Royalties and rentals	-	16,907,071	241,755,268	3,515,176	262,177,515
Deposits held in trust	-	574,750	9,250,000	-	9,824,750
	<u>\$ 16,081</u>	<u>17,605,745</u>	<u>251,132,059</u>	<u>12,765,176</u>	<u>281,519,061</u>

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - ALL AGENCY FUNDS  
 As of June 30, 2013**

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
<b>ASSETS</b>				
Interest in the State General Fund Investment Pool	\$ 125,762,034	604,656,985	586,703,008	143,716,011
Investments	10,470,690	1,134,623	-	11,605,313
Due from Royalty Advance Payment Fund	9,250,000	-	-	9,250,000
Receivables				
Oil and gas royalties	86,808,345	114,313,863	86,808,345	114,313,863
Interest	28,696	11,833	28,696	11,833
Interest assessments	4,615,891	-	810,408	3,805,483
Less allowance for uncollected accounts-interest assessments	(1,439,336)	255,894	-	(1,183,442)
	<u>\$ 235,496,320</u>	<u>720,373,198</u>	<u>674,350,457</u>	<u>281,519,061</u>
<b>LIABILITIES</b>				
Vouchers payable	\$ 108,161	238,984	109,309	237,836
Due to general fund	48,801	11,777	31,618	28,960
Due to Oil and Gas Royalty Fund	9,250,000	-	-	9,250,000
Due to beneficiaries				
Royalties and rentals	216,254,108	720,082,437	674,159,030	262,177,515
Deposits held in trust	9,835,250	40,000	50,500	9,824,750
	<u>\$ 235,496,320</u>	<u>720,373,198</u>	<u>674,350,457</u>	<u>281,519,061</u>

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
AGENCY FUNDS  
For The Year Ended June 30, 2013**

**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 State Land Office receipts. Distributions are made monthly to the appropriate beneficiaries, the Land Maintenance Fund and the State Permanent Fund.

**OIL AND GAS ROYALTY FUND**

A collection and clearing account for royalties collected by the Oil and Gas Accounting Division of the State of New Mexico Taxation and Revenue State Land Office. 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 STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - SALES EXPENSE FUND  
 For The Year Ended June 30, 2013**

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
<b>ASSETS</b>				
Interest in the State General	\$ 20,342	44	4,307	16,079
Interest Receivable	4	2	4	2
	<u>\$ 20,346</u>	<u>46</u>	<u>4,311</u>	<u>16,081</u>
<b>LIABILITIES</b>				
Vouchers payable	\$ -		1,148	(1,148)
Due to general fund	20,346	46	3,163	17,229
	<u>\$ 20,346</u>	<u>46</u>	<u>4,311</u>	<u>16,081</u>

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - LAND SUSPENSE FUND  
 For The Year Ended June 30, 2013**

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
<b>ASSETS</b>				
Interest in the State General Fund Investment Pool	\$ 18,042,994	80,834,028	83,895,135	14,981,887
Receivables				
Interest assessments	4,615,891	-	810,408	3,805,483
Less allowance for uncollected accounts	(1,439,336)	255,894	-	(1,183,442)
Interest Receivable	4,241	1,817	4,241	1,817
	<u>\$ 21,223,790</u>	<u>81,091,739</u>	<u>84,709,784</u>	<u>17,605,745</u>
<b>LIABILITIES</b>				
Vouchers payable	\$ 108,161	122,107	108,161	122,107
Due to general fund	4,241	1,817	4,241	1,817
Due to beneficiaries				
Royalties and rentals	20,526,138	80,927,815	84,546,882	16,907,071
Deposits held in trust	585,250	40,000	50,500	574,750
	<u>\$ 21,223,790</u>	<u>81,091,739</u>	<u>84,709,784</u>	<u>17,605,745</u>

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES - OIL AND GAS ROYALTY FUND  
 PAYMENT FUND  
 For The Year Ended June 30, 2013**

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
<b>ASSETS</b>				
Interest in the State General Fund Investment Pool	\$ 106,541,666	523,820,182	502,803,566	127,558,282
Due from Royalty Advance Payment Fund	9,250,000	-	-	9,250,000
Receivables				
Oil and gas royalties	86,808,345	114,313,863	86,808,345	114,313,863
Interest Receivable	24,214	9,914	24,214	9,914
	<u>\$ 202,624,225</u>	<u>638,143,959</u>	<u>589,636,125</u>	<u>251,132,059</u>
<b>LIABILITIES</b>				
Vouchers Payable	\$ -	116,877	-	116,877
Due to beneficiaries				
Royalties and rentals	193,350,011	638,017,168	589,611,911	241,755,268
Due to general fund	24,214	9,914	24,214	9,914
Deposits held in trust (Advance Royalty Fund)	9,250,000	-	-	9,250,000
	<u>\$ 202,624,225</u>	<u>638,143,959</u>	<u>589,636,125</u>	<u>251,132,059</u>

**COMMISSIONER OF PUBLIC LANDS  
COMBINING STATEMENT OF CHANGES IN ASSETS  
AND LIABILITIES - ROYALTY ADVANCE PAYMENT FUND  
For The Year Ended June 30, 2013**

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
<b>ASSETS</b>				
Interest in the State General Fund				
Investment Pool	\$ 1,157,032	2,731	-	1,159,763
Investments	10,470,690	1,134,623	-	11,605,313
Interest receivable	237	100	237	100
	<u>\$ 11,627,959</u>	<u>1,137,454</u>	<u>237</u>	<u>12,765,176</u>
<b>LIABILITIES</b>				
Due to Oil and Gas Royalty Fund	\$ 9,250,000	-	-	9,250,000
Due to beneficiaries royalties and rentals	<u>2,377,959</u>	<u>1,137,454</u>	<u>237</u>	<u>3,515,176</u>
	<u>\$ 11,627,959</u>	<u>1,137,454</u>	<u>237</u>	<u>12,765,176</u>





**INDEPENDENT AUDITORS' REPORT INDEPENDENT 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 Balderas  
New Mexico State Auditor  
Office of the State Auditor  
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, the aggregate remaining fund information, the budgetary comparison for the general fund of State of New Mexico Commissioner of Public Lands (State Land Office) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State Land Office's basic financial statements, and the related budgetary comparison of State Land Office, presented as supplemental information, and have issued our report thereon dated October 31, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered State Land Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of State Land Office's internal control. Accordingly, we do not express an opinion on the effectiveness of State Land Office's internal control.

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

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

October 31, 2013

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, continued**

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**Compliance and Other Matters**

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

**Purpose of This Report**

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



Hinkle + Landers, PC  
Albuquerque, NM  
October 31, 2013

**STATE OF NEW MEXICO  
 COMMISSIONER OF PUBLIC LANDS  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended June 30, 2013**

<b>Finding</b>	<b>Status of Current and Prior Year Findings</b>	<b>Financial Statement Finding</b>	<b>Federal Awards Finding</b>	<b>Other Matters</b>
<b>Prior:</b>				
None				
<b>Current:</b>				
None				

**STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
EXIT CONFERENCE  
For The Year Ended June 30, 2013**

An exit conference to discuss the results of the audit and the audit report was held on October 31, 2013. In attendance were:

Representing State of New Mexico Commissioner of Public Lands:

Ray Powell	Commissioner of Public Lands
Sunalei Stewart	Deputy Commissioner of Public Lands
Elaine Olah	Assistant Commissioner of Administrative Services
Margaret Sena	Division Director of Administrative Division

Representing Hinkle + Landers, PC:

Farley Vener	Managing Shareholder
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The financial statements were prepared by the management of the State of New Mexico Commission of Public Lands (State Land Office).