

**State of New Mexico Commissioner
of Public Lands**

**Financial Statements and Schedules
(With Report of Independent Auditors Thereon)**

Fiscal Year Ended June 30, 2016

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

TABLE OF CONTENTS

INTRODUCTORY SECTION

Official Roster1

FINANCIAL SECTION

Report of Independent Auditors..... 2-4

Management's Discussion and Analysis..... 5-12

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position..... 13-14

Statement of Activities..... 15

Fund Financial Statements

Governmental Funds Financial Statements

Balance Sheet..... 16

Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Position 17

Statement of Revenues, Expenditures and Changes

in Fund Balances - Governmental Funds..... 18

Reconciliation of the Governmental Funds

Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of

Activities..... 19

Statement of Revenues and Expenditures

Budget and Actual – General Fund

Including Multiyear Appropriations 20-28

Statement of Fiduciary Assets and Liabilities – Agency Funds 29

Notes to Financial Statements 30-54

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

TABLE OF CONTENTS (CONTINUED)

SUPPLEMENTARY INFORMATION

Agency Funds	55
Combining Schedule of Fiduciary Assets and Liabilities – All Agency Funds.....	56
Combining Statement of Changes in Assets and Liabilities – All Agency Funds.....	57
Schedule of Changes in Assets and Liabilities - Sales Expense Fund.....	58
Land Suspense Fund.....	59
Oil and Gas Royalty Fund	60
Royalty Advance Payment Fund.....	61
Schedule of Vendor Information	62
Report of Independent Auditors’ on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	63-64
Schedule of Prior Year Audit Findings.....	65
Schedule of Findings and Responses.....	66
Exit Conference.....	67

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

OFFICIAL ROSTER

June 30, 2016

Name	Title
Aubrey Dunn	Commissioner of Public Lands
Laura Riley	Deputy Commissioner of Public Lands
Assistant Commissioners of Public Lands:	
Allison Hedgecock	General Counsel
Emily Stickler	Communications
Clyde Ward	Commercial Resources
Patrick Padilla	Oil, Gas and Mineral Resources
Sandra Lopez	Administrative Services
Brian Hennington	Field Operations
Division Directors:	
Terry Warnell	Oil, Gas and Minerals Division
Dana Strang	Field Operations Division
Craig Johnson	Commercial Leasing Division
Danny Martinez	Royalty Management Division
Lucille Sisneros	Records Management Division
Margaret Sena	Administrative Services Division
Selena Romero	Human Resources Division
Bobby Gallegos	Facilities Management Division

REPORT OF INDEPENDENT AUDITORS

Mr. Aubrey Dunn
State of New Mexico
Commissioner of Public Lands
and
Mr. Timothy Keller
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, and the aggregate remaining fund information, the budgetary comparison for the general fund, and the Statement of Fiduciary Assets and Liabilities of the State of New Mexico Commissioner of Public Lands (State Land Office) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State Land Office's basic financial statements. We have also audited the financial statements of the State Land Office's Agency Funds presented as supplementary information as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fiduciary fund financial statements as of and for the year ended June 30, 2016.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Mr. Aubrey Dunn
State of New Mexico
Commissioner of Public Lands
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

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, the major fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and the Statement of Fiduciary Assets and Liabilities of the State of New Mexico Commissioner of Public Lands (State Land Office) as of June 30, 2016, and the respective changes in financial position for the year 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 present fairly, in all material respects, the respective financial position of the combining and individual fiduciary funds of the State Land Office as of June 30, 2016, and the respective changes in financial position for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

State of New Mexico

As discussed in Note 1, the financial statements of the State Land Office are intended to present the net position and the changes in net position of the governmental activities, the general fund and aggregate remaining fund information of the State of New Mexico that are attributable to the transactions of the State Land Office. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2016, and the respective changes in its financial position and its cash flows, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Prior Period Adjustment-Correction of Error

As discussed in Note 22 to the financial statements, the State Land Office's management discovered an error resulting in an understatement of previously reported balances for the State Land Office. Accordingly, an adjustment totaling \$26,835,822 has been made to the State Land Office's net position as of July 1, 2015, to correct these errors. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-12 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.

Mr. Aubrey Dunn
State of New Mexico
Commissioner of Public Lands
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Land Office's basic financial statements. The accompanying supplementary information which includes Agency Funds, Combining Schedule of Fiduciary Assets and Liabilities-All Agency Funds, Combining Schedule of Changes in Assets and Liabilities- All Agency Funds, Schedule of Changes in Assets and Liabilities for each individual agency fund, and Schedule of Vendor Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Agency Funds, Combining Schedule of Fiduciary Assets and Liabilities-All Agency Funds, Combining Schedule of Changes in Assets and Liabilities- All Agency Funds, and the Schedule of Changes in Assets and Liabilities for each individual agency fund 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 Agency Funds, Combining Schedule of Fiduciary Assets and Liabilities-All Agency Funds, and Schedule of Changes in Assets and Liabilities- All Agency Funds, Schedule of Changes in Assets and Liabilities for each individual agency fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 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 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.

Mess Adams LLP

Albuquerque, New Mexico
December 1, 2016

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

June 30, 2016

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, 2016. The report provides an 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 (BFS) are presented in four parts, in the following order:

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

Government-Wide Financial Statements

The government-wide financial statements include the first two financial statements, the Statement of Net Position and the Statement of Activities. These statements report information on all of the financial activities and resources of the State Land Office 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 State Land Office'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, 2016. 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 State Land Office improved or deteriorated. Net position legally limited to a particular use are reported as restricted. Unrestricted net position are assets that can be used to fund operating expenses in future years.

Government-Wide Statement of Activities reports the expenses of administering state trust lands with a comparison of the program revenues obtained to finance costs.

Fund Financial Statements

The Fund Financial Statements that follow the department-wide financial statements report on the financial position and changes in financial position of the individual funds used by the 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 maybe 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

June 30, 2016

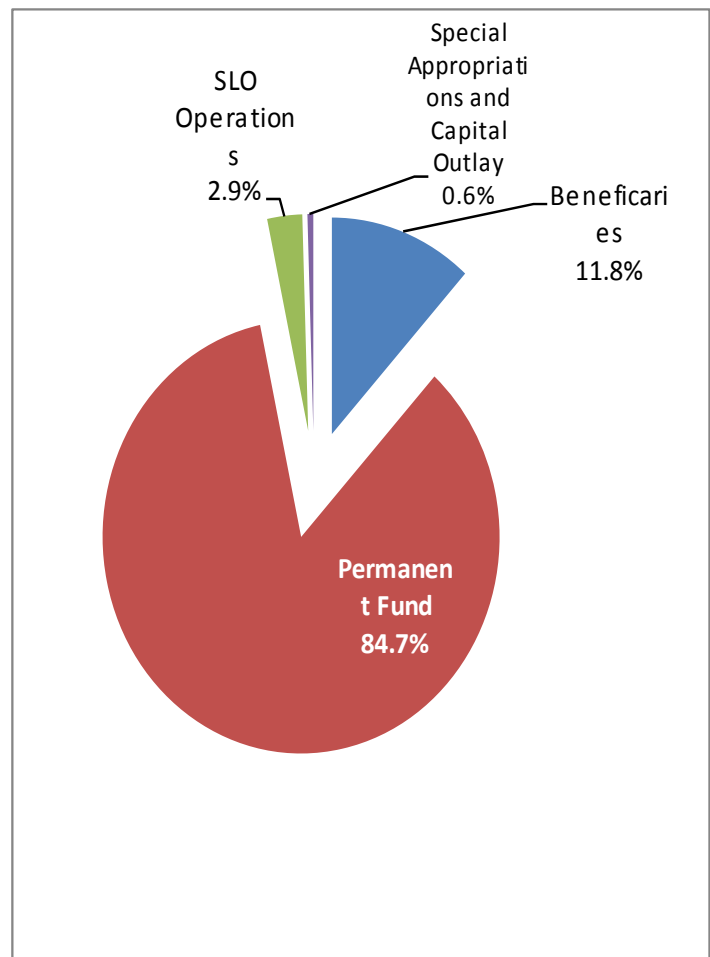
Governmental Funds are used to account for the finances of the governmental activities reported in the department-wide financial statements. The State Land Office uses a **general fund** to account for its general operating activities.

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 2016 the state trust lands generated total revenues of \$477 million. 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 \$75.7 million from renewable resources, and \$1.5 million from miscellaneous income. Land Maintenance Funds (LMF) not spent for operations or retained for special appropriations, \$57.8 million or 7.4% were distributed directly to beneficiaries. 90.5% of the revenue generated from State Trust Land came from resources extracted from state trust lands; \$419.7 million (84.7% from oil and gas royalties) was transferred to the Land Grant Permanent Fund (LGPF) at the State Investment Council.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

June 30, 2016

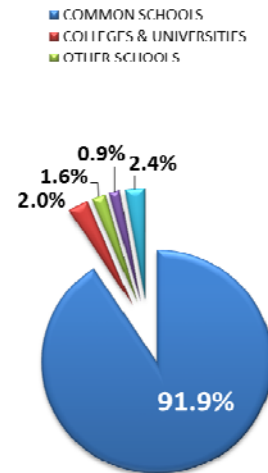
Total beneficiary earnings (in millions) from state trust lands by beneficiary type:

	<u>LMF</u>	<u>LGPF</u>	<u>Total</u>
Common Schools	\$ 47.8	\$391.0	\$ 438.8
Colleges & Universities	\$ 2.3	\$ 8.5	\$ 10.8
Other Schools	\$ 4.0	\$ 6.6	\$ 10.6
Hospitals	\$ 0.8	\$ 3.6	\$ 4.4
All Other Institutions	\$ 2.9	\$ 10.0	\$ 12.9
TOTAL	\$ 57.8	\$419.7	\$ 477.5

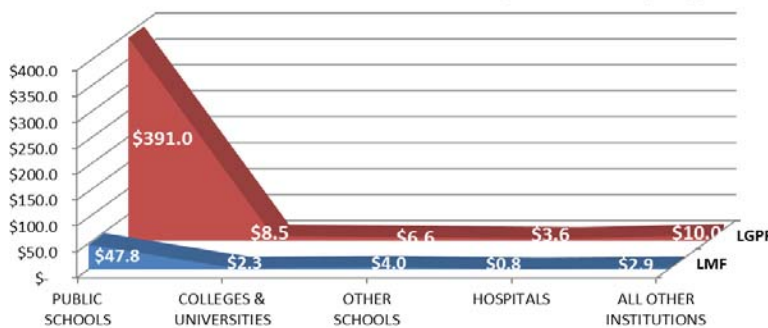
Land Maintenance Funds are distributed directly to beneficiaries at the end of each month. Earnings from royalties are transferred to the Land Grant Permanent Fund and are invested on behalf of the beneficiaries by the State Investment Council who manages the fund.

The State Investment Council distributes LGPF earnings to beneficiaries based on the formula set in the Constitution. Distributions from the Land Grant Permanent Fund (LGPF) totaled \$419.7 million in FY 2016¹. Distributions to state trust land beneficiaries from the Land Maintenance Fund totaled \$57.8 million. Total distributions from the Land Maintenance Fund and the Land Grant Permanent Fund totaled \$477.5 million. The following chart shows the distribution of funds (in millions) by beneficiary type during 2016.

Revenue Earned by Beneficiary Type



LMF & LGPF Distributions by Beneficiary Type



¹ State Investment Council: *Land Grant Permanent Fund; Fund Balance and Income Distribution Summary for the Fiscal Year Ended June 30, 2016 Un-audited; 7/24/2016*. For more information refer to the State Investment Council Financial Statements as of June 30, 2016.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

June 30, 2016

ANALYSIS OF THE AGENCY'S FINANCES

Net Position and Changes in Net Position

The following table summarizes the net position of the agency for the fiscal year ended June 30, 2016, with comparative balances for the fiscal years ended June 30, 2015 as restated to reflect adjustments that occurred after the issuance of the financial statements. Restatement amounts highlighted.

Comparative Analysis of Statement of Net Position

	Government Activities			
	2016	2015, as Restated	\$ Change	% Change
Assets				
Current and other assets	\$ 13,805,382	\$ 10,581,836	\$ 3,223,546	30.5%
Capital assets less accumulated depreciation	30,912,923	29,892,807	1,020,116	3.4%
Total assets	<u>44,718,305</u>	<u>40,474,643</u>	<u>4,243,662</u>	<u>10.5%</u>
Current Liabilities	3,612,204	4,245,705	(633,501)	-14.9%
Net position				
Net investments in capital assets	30,912,923	29,892,807	1,020,116	3.4%
Restricted Fund Balance - Special Appropriations	10,617,046	6,745,027	3,872,019	57.4%
Unrestricted Fund Balance	<u>(423,868)</u>	<u>(408,896)</u>	<u>(14,972)</u>	<u>3.7%</u>
Total Net Position	<u>41,106,101</u>	<u>36,228,938</u>	<u>4,877,163</u>	<u>13.5%</u>
Total Liabilities and Net Position	<u>\$ 44,718,305</u>	<u>\$ 13,638,821</u>	<u>\$ 4,243,663</u>	<u>31.1%</u>

For more detailed information see the Statement of Net Position.

Net Position increased by 3.4% in 2016 and reflects the increase in the funds held to finance special appropriations and capital improvement projects and the decreased value of capital assets due to depreciation and retirement of assets. Current liabilities decreased by 14.9% primarily due to the decrease in the reapportionment to beneficiaries that resulted from appropriations approved in the 2016 legislative session.

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 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

June 30, 2016

Net Position and Changes in Net Position (Continued)

The following table presents the detail changes in net position in agency for the fiscal year ended June 30, 2016, with comparative balances for the fiscal year ended June 30, 2015.

Comparative Analysis of Statement of Activities

	Government Activities			
	2016	2015, as Restated	\$ Change	% Change
Expenses				
General Government	\$ (15,087,835)	\$ (15,218,213)	\$ 3,223,546	-21.2%
Program revenues	21,539,836	17,814,689	1,020,116	5.7%
Net (Expense) Revenue	6,452,001	2,596,476	3,855,525	148.5%
General revenues and (expenses)				
Transfers in	\$ -	\$ -	\$ -	0.0%
Transfers out	(248,003)	(1,400,897)	1,152,894	-82.3%
Other income	4,323	29,733	(25,410)	-85.5%
Unrestricted investment earnings	343,036	152,374	190,662	125.1%
Reapportionable to other beneficiaries	(1,700,492)	(2,691,448)	990,956	-36.8%
Gain on sale of capital assets	26,298	10,899	15,399	141.3%
Total General Revenues and Transfers	(1,574,838)	(3,899,339)	2,324,501	-59.6%
Change in Net Position	4,877,163	(1,302,863)	6,180,026	-474.3%
Net position, beginning of year	36,228,938	10,695,979	25,532,959	238.7%
Prior period adjustment	-	26,835,822	(26,835,822)	0.0%
Restated net position, beginning of the year	36,228,938	37,531,801	(1,302,863)	-3.5%
Net position, ending of year	\$ 41,106,101	\$ 36,228,938	\$ 4,877,163	13.5%

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

June 30, 2016

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 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 \$1,177,900 as follows:

- **\$550,000** – Rights of Way Back File Conversion from Land Maintenance Fund revenue to complete the backfile conversion of right-of-way survey records into a Geospatial Information System (GIS) within a Geospatial framework.
- **\$500,000** – Natural Resource Restoration/Site Remediation from Land Maintenance Fund revenue in order for the New Mexico State Land Commissioner to fulfill his fiduciary responsibility to mitigate negative activities that impact the agency's ability to manage nine million acres of state trust lands with sound resource management techniques. The activities (project work) are intended to restore, rehabilitate, secure and remediate state trust lands to a more productive state to continue the public education legacy.
- **\$50,000** – Increase out of state travel expenses incurred while performing audits of companies who pay royalty to the State.
- **\$17,900** – Private grant from lessee to monitor the impact of a solar array on the Nut Grasslands.
- **\$50,000** – Increase contractual expenses for attorney fees.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

June 30, 2016

CAPITAL ASSETS

The Agency's investment in capital assets as of June 30, 2016, amounted to \$30,912,923 net of accumulated depreciation. This investment in capital assets includes land, mineral rights, buildings, automobiles, furniture, equipment and machinery, data processing equipment. The total increase in the Department's investment in capital assets for the current period was \$1,020,116 or 3.4%. The increase in capital assets is due to construction in progress for the Land Information Management System (LIMS). The LIMS project is due to be completed June 2017. The following table illustrates the change from 2016 to 2015.

Comparative Analysis of Capital Assets

Governmental Activities	June 30, 2016	June 30, 2015, as Restated	\$ Change	% Change
Land	\$ 27,087,974	\$ 27,087,974	\$ -	0.0%
Buildings	4,726,736	4,334,365	392,371	9.1%
Furniture, fixtures and equipment	760,694	783,090	(22,396)	-2.9%
Data processing	1,672,268	1,678,989	(6,721)	-0.4%
CIP - Land Information System	2,401,560	1,558,259	843,301	54.1%
Automobiles	820,283	816,571	3,712	0.5%
Total Capital Assets	37,469,515	36,259,248	1,210,267	3.3%
Accumulated Depreciation	6,556,592	6,366,441	190,151	3.0%
Capital assets, net	\$ 30,912,923	\$ 29,892,807	\$ 1,020,116	3.4%

CURRENTLY KNOWN FACTS DECISIONS OR CONDITIONS OF FUTURE SIGNIFICANCE

During the last fiscal year, the State Land Office experienced record breaking earnings for Land Maintenance Rental Income, less bonuses, when compared to the last 15 years. The State Land Office directly distributed 10.1% more to the beneficiaries in 2016 than was distributed in 2015. The State Land Office earned an average of \$1.4 million per day in 2016 from rentals and royalty revenues. Due to the decline in oil and gas prices, the State Land Office continues to be conservative with regard to revenue estimates and adjusted 2016 estimates to \$45/BBL. As oil and gas prices continue to remain somewhat stagnant, revenue projections were adjusted in 2017 to \$40/BBL and production down from 4.5 million barrels to 3.8 million. The State Land Office is chartered to maintain historical records related to land and leases which have been converted to electronic formats as part of the recently completed Land Information Management System (LIMS). The implementation of this system will improve overall data integrity and availability, increase staff efficiency, and enhance the agency's competitive position for identifying and securing new revenue sources.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

June 30, 2016

FINANCIAL CONTACT

The agency's financial statements are designed to present users with the general overview of the agency's finances and to demonstrate the department's accountability. If you have questions about the report or need additional financial information contact the agency's Assistant Commissioner for Administrative Services at (505) 827-5755 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
June 30, 2016**

	Governmental Activities
ASSETS	
Current assets	
Interest in the State General Fund Investment Pool	\$ 13,772,403
Petty cash	400
Supplies inventory	10,126
Due from other funds	<u>22,453</u>
Total current assets	<u>13,805,382</u>
Capital assets	
Land	27,087,974
Buildings	4,726,736
Furniture, fixtures and equipment	760,694
Data processing	1,672,268
CIP - Land Information System	2,401,560
Automobiles	820,283
Accumulated depreciation	<u>(6,556,592)</u>
Total capital assets, net of accumulated depreciation	<u>30,912,923</u>
Total assets	<u><u>\$ 44,718,305</u></u>

See Notes to Financial Statements.

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

**STATEMENT OF NET POSITION (CONTINUED)
June 30, 2016**

	Governmental Activities
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	\$ 1,014,120
Accrued payroll and payroll liabilities	363,874
Compensated absences payable	456,848
Due to beneficiaries	1,700,492
Due to other state agencies	<u>76,870</u>
Total current liabilities	<u>3,612,204</u>
Net Position	
Net invested in capital assets	30,912,923
Restricted	10,617,046
Unrestricted	<u>(423,868)</u>
Total net position	<u>41,106,101</u>
Total liabilities and net position	<u><u>\$ 44,718,305</u></u>

See Notes to Financial Statements.

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

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

	Governmental Activities
Expenses	
General government	<u>\$ 15,087,835</u>
Less: Program revenues	
Charges for services	<u>21,539,836</u>
Net program revenue (expense) and change in net position	<u>6,452,001</u>
General revenues and (transfers)	
Gain on sale of capital assets	26,298
Other income	4,323
Transfers to other state agencies	(248,003)
Unrestricted investment earnings	343,036
Reapportionable to other state beneficiaries	<u>(1,700,492)</u>
Total general revenues and transfers	<u>(1,574,838)</u>
Change in net position	<u>4,877,163</u>
Net position, beginning of year	9,393,116
Prior period adjustment	<u>26,835,822</u>
Restated net position, beginning of year	<u>36,228,938</u>
Net position, ending of year	<u><u>\$ 41,106,101</u></u>

See Notes to Financial Statements.

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	General Fund
ASSETS	
Interest in the State General Fund Investment Pool	\$ 13,772,403
Petty cash	400
Supplies inventory	10,126
Due from other funds	<u>22,453</u>
Total assets	<u><u>\$ 13,805,382</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 1,014,120
Accrued payroll and payroll liabilities	363,874
Due to other state agencies	76,870
Due to beneficiaries	<u>1,700,492</u>
Total liabilities	<u>3,155,356</u>
Fund Balances:	
Non-Spendable	
Supplies	10,126
Petty cash	400
Spendable	
Restricted	10,594,034
Committed	23,012
Unassigned	<u>22,454</u>
Total fund balances	<u>10,650,026</u>
Total liabilities and fund balances	<u><u>\$ 13,805,382</u></u>

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2016**

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

Total Fund Balances - Governmental Funds (Governmental Funds Balance Sheet)	\$ 10,650,026
--	----------------------

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	\$ 27,087,974	
Buildings and library	4,726,736	
Furniture , fixtures and equipment	760,694	
Data processing	1,672,268	
CIP- Land Information System	2,401,560	
Automobiles	820,283	
Accumulated depreciation	<u>(6,556,592)</u>	
Total capital assets		30,912,923

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>(456,848)</u>
---	------------------

Net Position of Governmental Activities (Statement of Net Position)	<u>\$ 41,106,101</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
Year Ending June 30, 2016**

	General Fund
Revenues	
Other state funds	\$ 1,158,007
Rental income	20,381,829
Interest income	343,036
Other income	31,329
Total revenues	<u>21,914,201</u>
Expenditures, current	
Personal services	7,802,953
Employee benefits	3,205,273
In-state travel	157,015
Maintenance and repairs	294,961
Supplies	396,630
Contractual services	2,215,898
Operating costs	598,714
Out-of-state travel	87,156
Total expenditures, current	<u>14,758,600</u>
Capital outlay and construction in progress	1,361,251
Total expenditures	<u>16,119,851</u>
Excess revenues over expenditures	<u>5,794,350</u>
Other financing sources (uses)	
Transfer to other state agencies	(248,003)
Reapportionable to other beneficiaries	(1,700,492)
Total other financing uses	<u>(1,948,495)</u>
Net change in fund balance	3,845,855
Fund balance, beginning of year	<u>6,804,171</u>
Fund balance, end of year	<u><u>\$ 10,650,026</u></u>

See Notes to Financial Statements.

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

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

Net change in net position (Statement of Activities)		\$ 4,877,163
<p>In the statement of activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental funds, however, expenditure for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The decrease in the liability for the year is</p>		
		(11,192)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are</p>		
Capital outlay	\$ (517,951)	
Construction In Progress	(843,300)	
Depreciation expense	340,427	
Excess of capital outlay over depreciation expense		(1,020,824)
<p>Governmental funds do not report (gain) loss on disposal of capital assets. However, (gain) loss on disposal is reported on the Statement of Activities. In the current period, the gain on disposal of capital assets is</p>		
		(26,298)
<p>Governmental funds report the receipt of cash from the sale of assets as revenue. However, this receipt of cash is not reported on the Statement of Activities</p>		
		27,006
Change in fund balances - Governmental Funds (Statement of Revenues, Expenditures and Changes in Fund Balance)		\$ 3,845,855

See Notes to Financial Statements.

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LAND**

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
INCLUDING MULTI-YEAR APPROPRIATIONS**

Year Ended June 30, 2016

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Other state funds	\$ 716,100	816,100	1,158,007	341,907
Rental income	13,806,300	13,806,300	20,381,829	6,575,529
Interest income	181,100	181,100	343,036	161,936
Miscellaneous revenue	49,800	49,800	31,329	(18,471)
Total budgeted revenues	14,753,300	14,853,300	21,914,201	7,060,901
Fund balance budgeted	-	17,950	-	-
Total	14,753,300	14,871,250	21,914,201	7,060,901
Expenditures				
General government				
Personal services & benefits	11,429,900	11,229,900	11,008,226	221,674
Contractual services	1,507,800	1,775,750	3,577,149	(1,801,399)
Other	1,815,600	1,865,600	1,534,476	331,124
Total budgeted expenditures	14,753,300	14,871,250	16,119,851	(1,248,601)
Transfers to other agencies	-	-	248,003	(248,003)
Reapportionment	-	-	1,700,492	(1,700,492)
Total expenditures	14,753,300	14,871,250	18,068,346	(3,197,096)
Excess (deficiency) of revenues over expenditures	\$ -	-	3,845,855	3,863,805

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LAND
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL - GENERAL FUND
 INCLUDING MULTI-YEAR APPROPRIATIONS (Continued)

For The Year Ended June 30, 2016

	General Fund - Multi Year Budgets for Special Appropriations					Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
Land Management System - Laws of 2014, 2nd Session, Chapter 63, Section 7, Item 14						
Revenues						
Special appropriations	\$ 2,332,000	\$ 2,332,000	\$ -	\$ 2,332,000	\$ 2,332,000	\$ -
Expenditures						
Personal services & benefits	544,823	446,823	229,248	217,575	446,823	-
Contractual services	1,787,177	1,885,177	1,032,746	852,431	1,885,177	-
Total budgeted expenditures	2,332,000	2,332,000	1,261,994	1,070,006	2,332,000	-
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (1,261,994)	\$ 1,261,994	\$ -	\$ -
Land Management System - Laws of 2014, 2nd Session, Chapter 63, Section 7, Item 15						
Revenues						
Special appropriations	\$ 2,800,000	\$ 2,800,000	\$ -	\$ 2,800,000	\$ 2,800,000	\$ -
Expenditures						
Personal services & benefits		50,000	-			
Contractual services	795,864	2,539,264	134,089	380,380	514,469	281,395
Other	2,004,136	210,736	11,694	96,980	108,674	1,895,462
Total budgeted expenditures	2,800,000	2,800,000	145,783	477,360	623,143	2,176,857
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (145,783)	\$ 2,322,640	\$ 2,176,857	\$ 2,176,857

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LAND

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
INCLUDING MULTI-YEAR APPROPRIATIONS (Continued)

For The Year Ended June 30, 2016

	General Fund - Multi Year Budgets for Special Appropriations					Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
ONGARD Modernization - Laws of 2014, Chapter 63, Section 7, Item 3						
Revenues						
Special appropriations	\$ 2,000,000	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 2,000,000	\$ -
Expenditures						
Other financial uses	2,000,000	2,000,000	248,003	1,751,997	2,000,000	-
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (248,003)</u>	<u>\$ 248,003</u>	<u>\$ -</u>	<u>\$ -</u>
ONGARD Replacement - Laws of 2016, Chapter 11, Section 7, Item 5						
Revenues						
Special appropriations	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
Expenditures						
Other financial uses	5,000,000	5,000,000	-	-	-	5,000,000
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LAND

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
INCLUDING MULTI-YEAR APPROPRIATIONS (Continued)

For The Year Ended June 30, 2016

	General Fund - Multi Year Budgets for Special Appropriations					
	Budgeted Amounts		Actual	Prior Year Actual	Total	Variance Favorable (Unfavorable)
	Original	Final				
Right of Way Digitization Phase II - Laws of 2015, Chapter 101, Section 5, Item 36						
Revenues						
Special appropriations	\$ 260,000	\$ 260,000		\$ 260,000	\$ 260,000	\$ -
Expenditures						
Personal services & benefits	50,000	25,000	25,000	-	25,000	-
Contractual services	210,000	235,000	235,000	-	235,000	-
Total budgeted expenditures	260,000	260,000	260,000	-	260,000	-
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (260,000)	\$ 260,000	\$ -	\$ -
Right of Way Digitization Phase 3 - Laws of 2016, Chapter 11, Section 5, Item 31						
Revenues						
Special appropriations	\$ 550,000	\$ 550,000	\$ 550,000	\$ -	\$ 550,000	\$ -
Expenditures						
Personal services & benefits	15,000	50,000	-	-	-	50,000
Contractual services	535,000	500,000	-	-	-	500,000
Total budgeted expenditures	550,000	550,000	-	-	-	550,000
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ 550,000	\$ -	\$ 550,000	\$ 550,000

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LAND

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
INCLUDING MULTI-YEAR APPROPRIATIONS (Continued)

For The Year Ended June 30, 2016

	General Fund - Multi Year Budgets for Special Appropriations					Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
Remediation and Restoration Laws 2016, Chapter 11, Section 5, Item 30						
Revenues						
Special appropriations	\$ 500,000	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ -
Expenditures						
Contractual services	500,000	500,000	-	-	-	500,000
Total budgeted expenditures	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LAND

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
INCLUDING MULTI-YEAR APPROPRIATIONS (Continued)

For The Year Ended June 30, 2016

	General Fund - Multi Year Budgets for Capital Projects					Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
Capital Project - Electrical Upgrades - Laws of 2013, Chapter 226, Section 55, Item 1						
Revenues						
Special appropriations	\$ 375,000	\$ 375,000	\$ -	\$ 375,000	\$ 375,000	\$ -
Expenditures						
Contractual services	60,000	60,000	5,323	46,905	52,228	7,772
Other	315,000	315,000	130,707	168,711	299,418	15,582
Total budgeted expenditures	375,000	375,000	136,030	215,616	351,646	23,354
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (136,030)	\$ 159,384	\$ 23,354	\$ 23,354
Capital Project - Security and Front Entry Upgrades - Laws of 2013, Chapter 226, Section 55, Item 2						
Revenues						
Special appropriations	\$ 105,000	\$ 105,000	\$ -	\$ 105,000	\$ 105,000	\$ -
Expenditures						
Contractual services	60,000	70,000		69,956	69,956	44
Other	45,000	35,000	3,431	30,644	34,075	925
Total budgeted expenditures	105,000	105,000	3,431	100,600	104,031	969
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (3,431)	\$ 4,400	\$ 969	\$ 969
Capital Project - Morgan Hall Renovation - Laws of 2013, Chapter 226, Section 55, Item 3						
Revenues						
Special appropriations	\$ 90,000	\$ 90,000	\$ -	\$ 90,000	\$ 90,000	\$ -
Expenditures						
Contractual services	90,000	87,000	7,848	41,395	49,243	37,757
Other	-	3,000	951	-	951	2,049
Total budgeted expenditures	90,000	90,000	8,799	41,395	50,194	39,806
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (8,799)	\$ 48,605	\$ 39,806	\$ 39,806

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LAND

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
INCLUDING MULTI-YEAR APPROPRIATIONS

For The Year Ended June 30, 2016

General Fund - Multi Year Budgets for Special Appropriations

	Budgeted Amounts		Actual	Prior Year Actual	Total	Variance Favorable (Unfavorable)
	Original	Final				
Capital Project - Morgan Hall Renovation						
Phase II -Laws of 2014, Chapter 66, Section 48, Item 1						
Revenues						
Special appropriations	\$ 720,000	\$ 720,000	\$ -	\$ 720,000	\$ 720,000	\$ -
Expenditures						
Contractual services	720,000	-	-	-	-	-
Other	-	720,000	277,940	-	277,940	442,060
Total budgeted expenditures	720,000	720,000	277,940	-	277,940	442,060
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (277,940)	\$ 720,000	\$ 442,060	\$ 442,060
Capital Project - Building Repairs - Laws of 2014, Chapter 66, Section 48, Item 2						
Revenues						
Special appropriations	\$ 360,000	\$ 360,000	\$ -	\$ 360,000	\$ 360,000	\$ -
Expenditures						
	360,000	360,000	-	-	-	360,000
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ 360,000	\$ 360,000	\$ 360,000
Capital Project - Wiring Upgrade - Laws of 2014, Chapter 66, Section 48, Item 3						
Revenues						
Special appropriations	\$ 230,000	\$ 230,000	\$ -	\$ 230,000	\$ 230,000	\$ -
Expenditures						
	230,000	230,000	-	-	-	230,000
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ 230,000	\$ 230,000	\$ 230,000

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LAND

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
INCLUDING MULTI-YEAR APPROPRIATIONS

For The Year Ended June 30, 2016

	General Fund - Multi Year Budgets for Capital Projects					Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
Capital Project - Boiler Replacement - Laws of 2015, Chapter 3, Section 81, Item 1						
Revenues						
Special appropriations	\$ 135,000	\$ 135,000	\$ -	\$ 135,000	\$ 135,000	\$ -
Expenditures						
Contractual services	15,000	15,000	9,012	-	9,012	5,988
Other	120,000	120,000	-	-	-	120,000
Total budgeted expenditures	135,000	135,000	9,012	-	9,012	125,988
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (9,012)	\$ 135,000	\$ 125,988	\$ 125,988
Capital Project - Electrical - Laws of 2015, Chapter 3, Section 81, Item 2						
Revenues						
Special appropriations	\$ 350,000	\$ 350,000	\$ -	\$ 350,000	\$ 350,000	\$ -
Expenditures						
	350,000	350,000	-	-	-	350,000
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ 350,000	\$ 350,000	\$ 350,000
Capital Project - Wiring - Laws of 2015, Chapter 3, Section 81, Item 3						
Revenues						
Special appropriations	\$ 145,000	\$ 145,000	\$ -	\$ 145,000	\$ 145,000	\$ -
Expenditures						
	145,000	145,000	-	-	-	145,000
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ 145,000	\$ 145,000	\$ 145,000

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LAND

STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL - GENERAL FUND
 INCLUDING MULTI-YEAR APPROPRIATIONS

For The Year Ended June 30, 2016

	General Fund - Multi Year Budgets for Capital Projects					Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
Capital Project - Storage Systems- Laws of 2016, Chapter 81, Section 41, Item 1						
Revenues						
Special appropriations	\$ 150,000	\$ 150,000	\$ 150,000	\$ -	\$ 150,000	\$ -
Expenditures	150,000	150,000	-	-	-	150,000
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

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

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
June 30, 2016**

		Agency Funds
ASSETS		
Interest in the State General Fund Investment Pool	\$	129,536,410
Investments		14,355,164
Royalty Advance Payment Fund		9,050,000
Receivables		
Interest		2,607
Royalties		50,747,872
Interest assessments		1,965,876
Allowance for uncollectible accounts		<u>(307,583)</u>
Total assets	\$	<u><u>205,350,346</u></u>
LIABILITIES		
Accounts payable	\$	172,461
Due to general fund		22,454
Due to Oil and Gas Royalty Fund		9,050,000
Due to beneficiaries		
Royalties and rentals		186,094,702
Deposits held in trust		<u>10,010,729</u>
Total liabilities	\$	<u><u>205,350,346</u></u>

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

Notes to the Financial Statements

Year Ended June 30, 2016

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 8.9 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 accompanying financial statements of the State Land Office include all funds and activities over which the State Land Office has oversight responsibility. The State Land Office is part of the primary government of the State of New Mexico, and its financial data is included with the financial data in state of New Mexico's Comprehensive Annual Financial Report. These financial statements present financial information that is attributable to the State Land Office and does not purport to present the financial position of the State of New Mexico.

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

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are available, the State Land Office first uses restricted resources then unrestricted resources.

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

A. Governmental Funds

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

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fiduciary Funds

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

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

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

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

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

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

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

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.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Annual General Appropriation Act 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 Annual General Appropriation Act, 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. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016.

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 Large Cap Index) 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 follows 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." The State Land Office also follows Government Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* in connection with their investments.

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.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At June 30, 2016, 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. See Note 15 on contingencies.

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 outside entities. 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, none of the restricted special appropriations and capital project appropriations were from the State General Fund; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by outside entities; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2016, 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 - Restricted for Refunds. This reserve was created for refunds, per New Mexico Statute 1978 Chapter 19 Public Lands, Section 19-7-62.

Spendable - Restricted for Land Management System. This reserve was created to procure and implement a land management system for management of public lands, per Laws of 2010, Chapter 6, 2nd Special Session, Section 7, number 10 and extended per Laws 2014, Chapter 63, Section 7, number 13.

Spendable - Restricted 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 and extended per Laws 2014, Chapter 63, Section 7, Item 14.

Spendable - Restricted for Land Management System. This reserve was created to procure and implement a land management system for management of public lands, per Laws of 2014, Chapter 63, Section 7, Item 15.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Spendable – Restricted 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 and extended per Laws 2014, Chapter 63, Section 7, Item 3.

Spendable – Restricted for Right of Way Digitization. This reserve was created to convert historical right of way parcel location information into a geographic information system frame work per Laws of 2014, Chapter 63, Section 5, Item 56.

Spendable – Restricted 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.

Spendable – Restricted for Capital Projects. This reserve was created to continue renovation of Morgan Hall, replacement of ceiling and install ceiling sprinklers to the State Land Office Building, and renovate wiring per Laws of 2014, Chapter 66, Section 48, Items 1, 2, and 3.

Spendable – Committed for Nutgrass. This reserve was created from an agreement to study long term environmental impacts of a solar facility on the Nutt Grassland.

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 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.

New Accounting Pronouncements. The State Land Office adopted Statement No. 72 of the Governmental Accounting Standards Board *Fair Value Measurement and Application* (GASB 72) during 2016. This statement requires investments held to be reported at fair value and disclosures of the investment level within the fair value hierarchy. The additional disclosures are included in Note 4.

The State Land Office adopted Statement No. 79 of the Governmental Accounting Standards Board *Certain External Investment Pools and Pool Participants* (GASB 79) during 2016. This statement requires additional disclosures about any limitations or restrictions associated with their participation in external investment pool. investments held to be reported at fair value and disclosures of the investment level within the fair value hierarchy. The additional disclosures are included in Note 4.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

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 State Land Office 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.

As of June 30, 2016, cash consisted of the following:

Account Name/Type	Account Number	Balance per Financial Statements
General Fund		
On deposit with the State Treasurer		
Land Maintenance Fund	539-09800	\$ 13,772,403
Petty Cash	N/A	400
Total General Fund		<u>13,772,803</u>
Agency Funds		
On deposit with the State Treasurer		
Oil and Gas Royalty Fund	539-26400	114,274,774
Sales Expense Fund	539-77600	22,454
Land Suspense Fund	539-77700	14,074,877
Royalty Advance Payment Fund	539-51400	1,164,305
		<u>129,536,410</u>
Total - Agency Funds		<u>129,536,410</u>
Total Cash and Cash Equivalents		<u>\$ 143,309,213</u>

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

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

Account Name/Type	Cash Balance Per STO	Deposits in Transit (Refunds not Recorded)	Balance per Financial Statements
General Fund			
On deposit with the State Treasurer			
Land Maintenance Fund	\$ 13,772,403	\$ -	\$ 13,772,403
Petty Cash	400	-	400
Total General Fund	<u>13,772,803</u>	<u>-</u>	<u>13,772,803</u>
Agency Funds			
On deposit with the State Treasurer			
Oil and Gas Royalty Fund	114,274,774	-	114,274,774
Sales Expense Fund	22,454	-	22,454
Land Suspense Fund	14,074,877	-	14,074,877
Royalty Advance Payment Fund	1,164,305	-	1,164,305
Total - Agency Funds	<u>129,536,410</u>	<u>-</u>	<u>129,536,410</u>
Total Cash and Cash Equivalents	<u>\$ 143,309,213</u>	<u>\$ -</u>	<u>\$ 143,309,213</u>

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.

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.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 3. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

Phase 1 of the Cash Management Remediation Project (completed in May 2013) implemented statewide business process changes and corrected numerous SHARE System configurations. As a result of the changes and corrections, DFA/FCD was able to begin reconciling activity reported by the State's fiscal agent bank to the SHARE general ledger on a *point-forward basis* beginning February 1, 2013. However, additional critical business process changes and corrections to configurations within the SHARE System remain to be completed; therefore, Cash Management Remediation Project, Phase II, will commence shortly.

On July 11, 2014, DFA/FCD commenced the Historical Cash Reconciliation Project in partnership with Deloitte & Touche, LLP. The scope of this project is July 1, 2006 (SHARE implementation) to January 31, 2013 (the point at which DFA/FCD began reconciling cash activity as noted in the paragraph above). These cash balances have not been reconciled to the accounts maintained at the State Treasurer's Office since the implementation of the SHARE System. DFA 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.

In prior years, DFA management had recorded a loss contingency in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool and 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.

The State Land Office has compensating internal controls in place to account for deposits and expenditures and the balance of the General Fund Investment Pool is materially correct at June 30, 2016. Adjustments, if any, to the State Land Office's financial statements cannot be determined until the reconciliation process is complete.

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

At June 30, 2016, the State Land Office had \$13,772,403 invested in the General Fund Investment Pool. This pool represents cash and short-term investments. The State Treasurer invests excess cash balances on behalf of certain earmarked funds of state agencies identified by State statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the state agencies where interest is allowed to be earned. All other interest earnings are transferred to the State General Fund. Currently, there are no limitations or restrictions on withdrawals on the investment in the General Fund Investment Pool.

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 3. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

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 a 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, 2016.

NOTE 4. 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 \$14,355,164. This represents the Royalty Advance Payment Fund’s proportionate share of the quoted market prices of the securities held in Investment Funds. The Funds invest in equity securities, U.S. Treasury and Federal Agency notes, industrial and utility bonds and notes, and overnight repurchase agreements. The investments held by the State Investment Council for the State Land Office are uninsured and unregistered and there is no regulatory oversight on the Investment Funds.

GASB 72 Fair Value Measurements and Disclosures provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments Measured at Fair Value are as follows:

	Total as of June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity Securities				
Large Cap Active Pool	\$ 4,123,536	\$ 4,123,536	\$ -	\$ -
Large Cap Index Pool	4,026,432	-	4,026,432	-
Total Equity Securities	<u>8,149,968</u>	<u>4,123,536</u>	<u>4,026,432</u>	<u>-</u>
Debt Securities				
Core Plus Bonds Pool	6,205,196	-	6,205,196	-
Total Debt Securities	<u>6,205,196</u>	<u>-</u>	<u>6,205,196</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 14,355,164</u>	<u>\$ 4,123,536</u>	<u>\$ 10,231,628</u>	<u>\$ -</u>

	Total as of June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity Securities				
Large Cap Active Pool	\$ 4,141,608	\$ 4,141,608	\$ -	\$ -
Large Cap Index Pool	3,911,052	-	3,911,052	-
Total Equity Securities	<u>8,052,660</u>	<u>4,141,608</u>	<u>3,911,052</u>	<u>-</u>
Debt Securities				
Core Plus Bonds Pool	5,907,085	-	5,907,085	-
Total Debt Securities	<u>5,907,085</u>	<u>-</u>	<u>5,907,085</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 13,959,745</u>	<u>\$ 4,141,608</u>	<u>\$ 9,818,137</u>	<u>\$ -</u>

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 4. INVESTMENTS (CONTINUED)

Investment interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to change in market interest rates. The State Land Office has exposure to interest rate risk by its investment in the Core Bond holdings with the State Investment Council.

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 Index, Large Capital Active and Core Bonds, thus there is no custodial risk related to these investments.

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

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

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

NOTE 5. RECEIVABLES

Interest assessment receivables in the Land Suspense Fund (agency fund) of \$1,965,876 represent uncollected amounts which have been billed by the State Land Office for late payment of royalties due.

Management has recorded an allowance of \$307,583 at June 30, 2016 for interest assessment receivables. Some interest assessments may be abated.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 5. RECEIVABLES (CONTINUED)

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

Royalties receivable in the Oil and Gas Royalty Fund (agency fund) of \$89,646,301 represent the amount of oil and gas production royalties that had not been received by the State Land Office as of June 30, 2016. Amounts are considered fully collectible, thus no allowance account is considered necessary.

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2015	Prior Period Adjustment	Balance June 30, 2015 as Restated	Additions	Deletions	Balance June 30, 2016
Governmental Activities						
Land	\$ 252,152	\$ 26,835,822	\$ 27,087,974	\$ -	\$ -	\$ 27,087,974
Buildings	4,334,365	-	4,334,365	397,221	(4,850)	4,726,736
Furniture, fixtures and equipment	783,090	-	783,090	-	(22,396)	760,694
Data processing	1,678,989	-	1,678,989	29,529	(36,250)	1,672,268
CIP - Land Information System	1,558,259	-	1,558,259	843,301	-	2,401,560
Automobiles	816,571	-	816,571	91,200	(87,488)	820,283
Totals	9,423,426	26,835,822	36,259,248	1,361,251	(150,984)	37,469,515
Accumulated Depreciation						
Buildings	(3,938,980)	-	(3,938,980)	(105,926)	4,850	(4,040,056)
Furniture, fixtures and equipment	(549,653)	-	(549,653)	(41,313)	22,396	(568,570)
Data processing	(1,394,773)	-	(1,394,773)	(87,638)	36,250	(1,446,161)
Automobiles	(483,035)	-	(483,035)	(105,550)	86,780	(501,805)
Total accumulated depreciation	(6,366,441)	-	(6,366,441)	(340,427)	150,276	(6,556,592)
Capital assets, net	\$ 3,056,985	\$ 26,835,822	\$ 29,892,807	\$ 1,020,824	\$ (708)	\$ 30,912,923

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 6. CAPITAL ASSETS (Continued)

The State Land Office recorded the value of the donated surface acres not previously recorded in Capital Assets. Refer to Note 22 for more information regarding the prior period adjustment.

The State Land Office currently holds approximately 12.6 million acres of mineral rights that carry no value in these financial statements as the department is uncertain as to the historical value of these mineral rights.

No depreciation is recorded on the construction in process – Land Information System until it is completed and placed in service. This project should be completed during 2017. The State Land Office expects to expend an additional \$2,176,857 to complete the project.

The State Land Office does not have any debt related to capital assets as of June 30, 2016. Depreciation expense for the agency amounted to \$340,427 and is considered a general governmental expense.

NOTE 7. COMPENSATED ABSENCES

The following represents changes in compensated absences for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due in One Year
Compensated absences	\$ 468,040	\$ 458,591	\$ 469,783	\$ 456,848	\$ 456,848

The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes. In the past, compensated absences have been paid out of the General Fund.

NOTE 8. DUE FROM AND DUE TO OTHER FUNDS

Due from and due to other funds at June 30, 2016 consisted of:

Amount Due From Other Funds			Amount Due to Other Funds		
Fund	Fund #	Amount	Fund	Fund #	Amount
Oil and Gas	26400	\$ 9,050,000	Royalty Advance	51400	\$ 9,050,000
General Fund	09800	\$ 22,454	Sales Expense	77600	\$ 22,454

This \$9,050,000 represents the cash balance for the Royalty Advance held by the State Investment Council for investment. Royalty Advance consists of funds submitted by oil and gas royalty remitters to be held on deposit. All royalties are paid when cleared from suspense and the principal investment will be paid to beneficiaries earning royalties upon liquidation. Investment earnings are credited to the Land Maintenance Fund and used to support the agency. The \$22,424 represents interfund balances are a result of reimbursement owed between the funds and are expected to be paid within one year.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 9. DUE FROM AND DUE TO OTHER STATE AGENCIES

Due from and due to other state agencies at June 30, 2016 consisted of:

Amount Due From Other Agencies			Other Agencies		
Fund	Fund #	Amount	Agency	Fund #	Amount
General Fund	09800	\$ 2,607	Tax and Revenue Dept.	83300	\$ 2,607

The Taxation and Revenue Department owed the State Land Office \$2,607 due to a royalty payment processed in error.

Amount Due To Other Agencies			Other Agencies		
Fund	Fund #	Amount	Agency	Fund #	Amount
General Fund	09800	\$ 76,855	Tax and Revenue Dept.	17200	\$ 76,855
General Fund	09800	15	Department of Public Safety	126805	15
Total due to other state agencies from the general fund		<u>\$ 76,870</u>			<u>\$ 76,870</u>

The State Land Office owed the Taxation and Revenue Department \$76,855 for the June 2016 payment of the ONGARD Service Center expenses and Department of Public Safety \$15 for background checks on new hires.

NOTE 10. TRANSFERS TO/FROM OTHER GOVERNMENTAL AGENCIES

During 2016 the State Land Office transferred to the State of New Mexico Tax and Revenue Department (172000/33300) from their General Fund (53900/09800) \$248,003 for the ONGARD modernization project.

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.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 11. PENSION PLAN-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Funding Policy. Plan members are required to contribute 8.92% (ranges from 6.28% to 18.15% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The State Land Office is required to contribute 16.59% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the State Land Office are established in State 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, 2016, 2015 and 2014 were \$1,296,266, \$1,340,081, and \$1,256,630, respectively, and equal the amount of the required contributions for each fiscal year.

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

Plan Description. The New Mexico 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.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

**NOTE 12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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 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, 2016, 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, 2016, 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, 2016, 2015, and 2014 were \$152,592, \$157,804, and \$151,749, 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, 2016 were \$139,701. Future minimum lease payments under these operating leases are as follows:

For the Year End June 30, 2016	Amount
2017	\$ 101,891
2018	67,779
2019	34,353
2020	31,173
2021	-
Total	\$ 235,196

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

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 cleanup of contaminated sites on state lands or for the reimbursement to federal or state environmental agencies for the cost of cleanup. As of June 30, 2016, no such claims have been asserted by either federal or state environmental agencies. According to management of the State Land Office, if such a claim were filed, the State would have the right to seek contribution from operators, arrangers and transporters at the site. In addition, the State might be able to reach a settlement agreement with the environmental agency and allow the State to pursue its claims against the other potentially responsible parties. As holder of the legal title to the state lands, the State of New Mexico alone could be liable for the costs of clean-up in the absence of any other potentially responsible 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. There is an ongoing legal matter in which law firm alleges the State Land Office owes the law firm approximately 8 million dollars as part of a settlement with payment of royalties. The State Land Office has vigorously opposed any payment since the law firm was not involved with that specific settlement. The settlement proceeds have been distributed to the beneficiaries and, if any, amount is awarded to the law firm, the amount would be funded by a legislative appropriation. 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, 2016.

NOTE 15. JOINT POWERS AGREEMENTS

STATE OF NEW MEXICO ONGARD SYSTEM

The Tri-Agencies – Energy Minerals & Natural Resources State Land Office (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.

MANAGEMENT OF THE WIPP WITHDRAWAL AREA

U.S. Department of Energy (DOE), New Mexico Department of Game and Fish (DGF), the New Mexico Energy, Minerals and Natural Resources Department (EMNRD), the New Mexico Office of Cultural Affairs (OCA), and the New Mexico State Land Office (SW) entered into “Agreement” pursuant to the New Mexico Joint Powers Agreement Act, Section 11-1-1 et sea NMSA 1978, the Department of Energy

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 15. JOINT POWERS AGREEMENTS (CONTINUED)

Organization Act, P.L. 95-94, the Energy Reorganization Act of 1974, P.L. 93-438 and the Economy Act of 1932 as amended by P.L. 98-216 on June 26, 1997. The purpose of this agreement is to encourage direct communication among the parties and other appropriate federal and state agencies involved in managing the resources within, or activities impacting the areas adjacent to, the WIPP withdrawal area. It sets forth cooperative arrangements and procedures for addressing land management within and adjacent to the withdrawal area.

TO DISTRIBUTE FEDERAL GRANT FUNDS

Energy Minerals & Natural Resources State Land Office (EMNRD), and State Land Office entered into "Agreement" pursuant to the New Mexico Joint Powers Agreement Act, NMSA 1978 ss 11-1-1; the Forest Conservation Act, NMSA ss 68-2-1 through 68-2-33; and the Federal Cooperative Forestry Assistance Act of 1978, P.L. 95-313 on November 6, 2003. The purpose of this agreement is for administrative efficiency so that several projects can be carried out through a single program; whereas, EMNRD and the State Land Office are public agencies and are authorized by law to enter into this Joint Powers Agreement. EMNRD is authorized to enter into agreements to protect forests and provide forest management technical assistance including forest health and from time to time receives funds from the USDA, Forest Service (USDA) under the Wildland Urban Interface and Hazardous Fuel Reduction Grant Programs to mitigate the threat of wildland fires and improve forest health. EMNRD shall reimburse the State Land Office out of federal grant funds for all reimbursable costs incurred under this Agreement for materials and labor in amounts not to exceed the limit set in the Project Work Plan.

TO CONDUCT RESOURCE MANAGEMENT ACTIVITIES IN THE LUERA MOUNTAINS

The State Land Office and the New Mexico Energy, Minerals and Natural Resources Department (EMNRD) entered into "Agreement" pursuant to the New Mexico Joint Powers Agreement Act, NMSA 1978 ss 11-1-1 to 11-1-7 NMSA 1978 on April 15, 1993. The purpose of this agreement is to provide to the Commissioner the resources and expertise of the EMNRD's State Forester for the purpose of protecting and conserving the forested areas of the said state trust lands as contemplated by Section 68-2-11 NMSA1978.

NOTE 16. MEMORANDUM OF UNDERSTANDING (MOU)

Memorandum of Understanding between the New Mexico State Land Office and the Regents of New Mexico State University is designed to define, formalize and maintain a cooperative relationship related to the study of the long term environmental impacts of a solar facility on the Nutt Grassland. This agreement is intended to promote sustainability and responsible trust stewardship and to facilitate the sharing of information between the State Land Office and New Mexico State University. The State Land Office has received and disbursed funds for the project during fiscal year 2016. The remaining balance of \$23,012 is held as committed fund balance at fiscal year end.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 16. MEMORANDUM OF UNDERSTANDING (MOU) (CONTINUED)

Memorandum of Understanding between the New Mexico State Land Office and New Mexico Department of Game and Fish to provide a policy of wildlife management with emphasis on a diverse and high quality wildlife and fisheries resources on those state trust lands included in State Game and Fish Easement.

Memorandum of Understanding between the New Mexico State Land Office, Bureau of Land Management, New Mexico Department of Game and Fish and U.S. Forest Service to provide guidelines for these agencies to work together with the New Mexico CowBelles in the development and promotion of Operation Respect.

NOTE 17. SPECIAL APPROPRIATIONS

Laws of 2012, 2nd 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. Per Laws of 2014, Second Session, Chapter 63, Section 7, Item 14 the appropriation was extended through fiscal year 2016. The appropriation was fully expended at June 30, 2016.

Laws of 2014, Chapter 63, Section 7, Item 15, the State Land Office was appropriated \$2,800,000 to continue the implementation of the land information management system. The period of time for expending the appropriation is through fiscal year 2016. Per Laws of 2016, Chapter 11, Section 7, Item 14 the appropriation was extended through fiscal year 2017. The remaining balance on this appropriation was \$2,176,857 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 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. Per Laws of 2014, Chapter 63, Section 7, Item 3 the appropriation was extended through fiscal year 2016. The appropriation was fully expended at June 30, 2016.

Laws of 2015 Chapter 101, Section 5, Item 36, the State Land Office was appropriated \$260,000 to convert historical right of way parcel location information into a geographic information system framework – phase two. The period of time for expending the appropriation is through fiscal year 2016. The appropriation was fully expended at June 30, 2016.

Laws of 2016, Chapter 11, Section 7, Item 5, the State Land Office was appropriated \$5,000,000 to replace the oil and natural gas administration and revenue database system. The period of time for expending the appropriation is through fiscal year 2018. The remaining balance on this appropriation was \$5,000,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 17. SPECIAL APPROPRIATIONS (CONTINUED)

Laws of 2016 Chapter 11, Section 5, Item 31, the State Land Office was appropriated \$550,000 to convert historical right of way parcel location information into a geographic information system framework – phase three. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation was \$550,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

Laws of 2016 Chapter 11, Section 5, Item 30, the State Land Office was appropriated \$500,000 for natural resource restoration and remediation of state trust lands. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation was \$500,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

NOTE 18. 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 is \$23,354 at June 30, 2016. 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 is \$969 at June 30, 2016. 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 is \$39,806 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

Laws of 2014, Chapter 66, Section 48, Item 1, the State Land Office was appropriated \$720,000 to continue to plan, design and renovate Morgan Hall. The period of time for expending the appropriation is through fiscal year 2018. The remaining balance on this appropriation was \$442,060 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 18. CAPITAL PROJECTS (CONTINUED)

Laws of 2014, Chapter 66, Section 48, Item 2, the State Land Office was appropriated \$360,000 to replace the ceiling and install a sprinkler suppression system. The period of time for expending the appropriation is through fiscal year 2018. The remaining balance on this appropriation was \$360,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

Laws of 2014, Chapter 66, Section 48, Item 3, the State Land Office was appropriated \$230,000 to upgrade wiring infrastructure. The period of time for expending the appropriation is through fiscal year 2018. The remaining balance on this appropriation was \$230,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

Laws of 2015, Chapter 3, Section 81, Item 1, the State Land Office was appropriated \$135,000 to plan, design, purchase and install boilers. The period of time for expending the appropriation is through fiscal year 2019. The remaining balance on this appropriation was \$125,988 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2019 shall revert to the beneficiaries.

Laws of 2015, Chapter 3, Section 81, Item 2, the State Land Office was appropriated \$350,000 to replace the electrical distribution system. The period of time for expending the appropriation is through fiscal year 2019. The remaining balance on this appropriation was \$350,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2019 shall revert to the beneficiaries.

Laws of 2015, Chapter 3, Section 81, Item 3, the State Land Office was appropriated \$145,000 to plan and design improvements to the phone and network wiring infrastructure. The period of time for expending the appropriation is through fiscal year 2019. The remaining balance on this appropriation was \$145,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2019 shall revert to the beneficiaries.

Laws of 2016, Chapter 81, Section 41, Item 1, the State Land Office was appropriated \$150,000 to plan, design, purchase and install space saver storage systems at the state land office. The period of time for expending the appropriation is through fiscal year 2020. The remaining balance on this appropriation was \$150,000 at June 30, 2016. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 19. GOVERNMENTAL FUND BALANCES

The State Land Office's fund balances represent: Restricted purposes which include balances that are legally restricted for specific purposes and committed purposes which include balances that can only be used for specific purposes pursuant to constraints imposed by outside entities. A summary of the nature and purposes of these reserves by fund type at June 30, 2016 follows:

Description	Nonspendable	Restricted and Committed Purposes
General Fund		
Supplies	\$ 10,126	\$ -
Petty Cash	400	-
Restricted - Refunds - NMSA 1978, Section 19-7-62	-	500,000
Restricted - Land Management System - L14 C63 S007I015	-	2,176,858
Restricted - Ongard Replacement - L16 C11 S007 I015	-	5,000,000
Restricted - R/W Digitization - L16 C11 S005 I031	-	550,000
Restricted - Remediation and Restoration L15 C101 S5 I36	-	500,000
Committed - Nutgrass - Other gifts/grants	-	23,012
Restricted - Capital Projects	-	64,129
Restricted - Capital Projects	-	1,032,060
Restricted - Capital Projects	-	620,987
Restricted - Capital Projects	-	150,000
	<u>\$ 10,526</u>	<u>\$ 10,617,046</u>

NOTE 20. CONFLICT OF INTEREST

The State Land Office maintains a Conflict of Interest Policy which applies to all the executive staff, management and staff employees. The Policy requires each person to whom the policy applies to complete a disclosure statement which identifies a business or financial interest of that person which is planning to engage in a business transaction with the 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 twenty or more years, prior to the hiring date of January 2015 of the member of management (executive staff). For the year ended June 30, 2016 the State Land Office received lease revenue of \$1,687 relating to these leases.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2016

NOTE 22. PRIOR PERIOD ADJUSTMENT – CORRECTION OF ERROR

The State Land Office currently holds approximately 8.9 million surface acres of land and related mineral rights, and an additional approximately 3.7 million acres of mineral rights, all of which was donated from the federal government. The department did not record the land when implementing GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* in previous years. GASB 34 requires that donated capital assets be recorded at their estimated fair value at the time of acquisition. The value per acre for land and the underlying mineral rights was determined to be \$3 per acre based on the 1901 annual report by the Commissioner of Public Lands of New Mexico when pieces of the original donated land was first sold. As described in Note 6, there is uncertainty around whether the mineral rights have any historical value and no amount for mineral rights has been included in this prior period adjustment. The estimated fair value of the currently held land on the date of donation was approximately \$26.8 million and was not previously reported in the Statement of Net Position. The correction of this error resulted in an increase of the capital assets and invested in capital assets net position of \$26.8 million. There was no effect on the change in net position for the year ended June 30, 2016.

NOTE 23. SUBSEQUENT EVENTS

The State Land Office has evaluated subsequent events through December 1, 2016 which is the date the financial statements have been issued and have determined no events require disclosure or adjustment to the financial statements.

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

Agency Funds

Year Ended June 30, 2016

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 SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS
June 30, 2016**

	Sales Expense Fund	Land Suspense Fund	Oil and Gas Royalty Fund	Royalty Advance Payment Fund	Total
ASSETS					
Interest in the State General Fund Investment Pool	\$ 22,454	\$ 14,074,877	\$ 114,274,774	\$ 1,164,305	\$ 129,536,410
Investments	-	-	-	14,355,164	14,355,164
Due from Royalty Advance Payment Fund	-	-	9,050,000	-	9,050,000
Due from Other State Agencies					
Receivables					
Royalties	-	-	50,747,872	-	50,747,872
Interest	-	-	2,607	-	2,607
Interest assessments	-	1,965,876	-	-	1,965,876
Less allowance for uncollected accounts - interest assessments	-	(307,583)	-	-	(307,583)
	<u>\$ 22,454</u>	<u>\$ 15,733,170</u>	<u>\$ 174,075,253</u>	<u>\$ 15,519,469</u>	<u>\$ 205,350,346</u>
LIABILITIES					
Vouchers payable	\$ -	\$ 172,461	\$ -	\$ -	\$ 172,461
Due to Oil and Gas Royalty Fund	-	-	-	9,050,000	9,050,000
Due to general fund	22,454	-	-	-	22,454
Due to beneficiaries					
Royalties and rentals	-	14,599,980	165,025,253	6,469,469	186,094,702
Deposits held in trust	-	960,729	9,050,000	-	10,010,729
	<u>\$ 22,454</u>	<u>\$ 15,733,170</u>	<u>\$ 174,075,253</u>	<u>\$ 15,519,469</u>	<u>\$ 205,350,346</u>

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

**COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - ALL AGENCY FUNDS
June 30, 2016**

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Interest in the State General Fund Investment Pool	\$ 146,482,968	\$ 359,234,679	\$ 376,181,237	\$ 129,536,410
Investments	13,959,745	395,419	-	14,355,164
Due from Royalty Advance Payment Fund	9,050,000	-	-	9,050,000
Receivables				
Oil and gas royalties	89,646,301	50,747,872	89,646,301	50,747,872
Interest	10,614	2,607	10,614	2,607
Interest assessments	3,940,060	1,965,876	3,940,060	1,965,876
Less allowance for uncollected accounts - interest assessments	<u>(1,093,165)</u>	<u>785,582</u>	<u>-</u>	<u>(307,583)</u>
	<u>\$ 261,996,523</u>	<u>\$ 413,132,035</u>	<u>\$ 469,778,212</u>	<u>\$ 205,350,346</u>
LIABILITIES				
Vouchers payable	\$ 45,519	\$ 172,461	\$ 45,519	\$ 172,461
Due to general fund	17,086	42,918	37,550	22,454
Due to Oil and Gas Royalty Fund	9,050,000	-	-	9,050,000
Due to beneficiaries				
Royalties and rentals	242,897,689	411,955,927	468,758,914	186,094,702
Deposits held in trust	<u>9,986,229</u>	<u>960,729</u>	<u>936,229</u>	<u>10,010,729</u>
	<u>\$ 261,996,523</u>	<u>\$ 413,132,035</u>	<u>\$ 469,778,212</u>	<u>\$ 205,350,346</u>

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

**COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - SALES EXPENSE FUND
June 30, 2016**

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Interest in the State General Fund Investment Pool	\$ 6,726	\$ 42,918	\$ 27,190	\$ 22,454
Interest Receivable	1	-	1	-
	<u>\$ 6,727</u>	<u>\$ 42,918</u>	<u>\$ 27,191</u>	<u>\$ 22,454</u>
LIABILITIES				
Vouchers Payable	\$ 172	\$ -	\$ 172	\$ -
Due to general fund	6,555	42,918	27,019	22,454
	<u>\$ 6,727</u>	<u>\$ 42,918</u>	<u>\$ 27,191</u>	<u>\$ 22,454</u>

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

**COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - LAND SUSPENSE FUND
June 30, 2016**

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Interest in the State General Fund Investment Pool	\$ 15,794,001	\$ 57,209,969	\$ 58,929,093	\$ 14,074,877
Receivables				
Interest assessments	3,940,060	1,965,876	3,940,060	1,965,876
Less allowance for uncollected accounts	(1,093,165)	785,582		(307,583)
Due from other State Agencies	1,319		1,319	-
Interest Receivable	-			-
	<u>\$ 18,642,215</u>	<u>\$ 59,961,427</u>	<u>\$ 62,870,472</u>	<u>\$ 15,733,170</u>
LIABILITIES				
Vouchers payable	\$ 45,347	\$ 172,461	\$ 45,347	\$ 172,461
Due to general fund	1,319		1,319	-
Due to beneficiaries				
Royalties and rentals	17,659,320	58,828,237	61,887,577	14,599,980
Deposits held in trust	936,229	960,729	936,229	960,729
	<u>\$ 18,642,215</u>	<u>\$ 59,961,427</u>	<u>\$ 62,870,472</u>	<u>\$ 15,733,170</u>

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

**COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - OIL AND GAS ROYALTY FUND
PAYMENT FUND
June 30, 2016**

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Interest in the State General Fund Investment Pool	\$ 129,520,663	\$ 301,979,065	\$ 317,224,954	\$ 114,274,774
Due from Royalty Advance Payment Fund	9,050,000	-	-	9,050,000
Due from Other State Agencies	-		-	-
Receivables				
Oil and gas royalties	89,646,301	50,747,872	89,646,301	50,747,872
Interest Receivable	9,212	2,607	9,212	2,607
	<u>\$ 228,226,176</u>	<u>\$ 352,729,544</u>	<u>\$ 406,880,467</u>	<u>\$ 174,075,253</u>
LIABILITIES				
Vouchers Payable	\$ -	\$ -	\$ -	\$ -
Due to beneficiaries				
Royalties and rentals	219,166,964	352,729,544	406,871,255	165,025,253
Due to general fund	9,212	-	9,212	-
Deposits held in trust	9,050,000		-	9,050,000
	<u>\$ 228,226,176</u>	<u>\$ 352,729,544</u>	<u>\$ 406,880,467</u>	<u>\$ 174,075,253</u>

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

**COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - ROYALTY ADVANCE PAYMENT FUND
June 30, 2016**

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Interest in the State General Fund Investment Pool	\$ 1,161,578	\$ 2,727	\$ -	\$ 1,164,305
Investments	13,959,745	395,419		14,355,164
Interest receivable	82		82	-
	<u>\$ 15,121,405</u>	<u>\$ 398,146</u>	<u>\$ 82</u>	<u>\$ 15,519,469</u>
LIABILITIES				
Due to Oil and Gas Royalty Fund	\$ 9,050,000	\$ -	\$ -	\$ 9,050,000
Due to beneficiaries royalties and rentals	6,071,405	398,146	82	6,469,469
	<u>\$ 15,121,405</u>	<u>\$ 398,146</u>	<u>\$ 82</u>	<u>\$ 15,519,469</u>

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

Schedule of Vendor Information

Year Ended June 30, 2016

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (if applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
539	State Land Office	State Agencies	60-539-15-00230	Competitive (RFP or RFB)	Anissa Construction	Winner	\$470,000.00	\$0.00	1232 Western Meadows Rd., Albuquerque, NM 87114	Yes	No	Remodel of Morgan Hall	NA
539	State Land Office	State Agencies	60-539-15-00230	Competitive (RFP or RFB)	AIC General Contractor Inc.	Loser	\$573,000.00	\$0.00	2703-G Broadbent Parkway NE, Albuquerque NM 87107	Yes	No	Remodel of Morgan Hall	NA
539	State Land Office	State Agencies	60-539-15-00230	Competitive (RFP or RFB)	Longhorn Construction Services, Inc.	Loser	\$560,000.00	\$0.00	9208 Loan Ln. NE, Albuquerque, NM 87111	Yes	Yes	Remodel of Morgan Hall	NA
539	State Land Office	State Agencies	60-539-15-00230	Competitive (RFP or RFB)	TGC Construction	Loser	\$583,070.00	\$0.00	PO Box 4, Albuquerque NM 87028	No	No	Remodel of Morgan Hall	NA

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

Mr. Aubrey Dunn
 State of New Mexico
 Commissioner of Public Lands
 and
 Mr. Timothy Keller
 New Mexico State Auditor
 Santa Fe, New Mexico

We have audited, 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information, the budgetary comparison for the general fund, and the Statement of Fiduciary Assets and Liabilities of the State of New Mexico Commissioner of Public Lands (State Land Office) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State Land Office's basic financial statements. We have also audited the financial statements of the State Land Office's Agency Funds presented as supplementary information as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fiduciary fund financial statements as of and for the year ended June 30, 2016 and have issued our report thereon dated December 1, 2016.

Internal Control Over Financial Reporting

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

Mr. Aubrey Dunn
State of New Mexico
Commissioner of Public Lands
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2016-001, that we consider to be a material weakness.

Compliance and Other Matters

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

State Land Office' Response to Findings

The State Land Office's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The State Land Office's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Mess Adams LLP

Albuquerque, New Mexico
December 1, 2016

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

Prior Year Findings

None

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

Schedule of Findings and Responses

Year Ended June 30, 2016

Section I – Summary of Audit Results

Financial Statements:

- | | |
|--|---------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiency identified not considered to be a material weakness? | None Reported |
| c. Noncompliance material to financial statements noted? | No |

Section II – Current Year Findings

2016-001 Recording of Land -Prior Period Adjustment, Material Weakness

Condition: Land granted by the Federal government was not recorded on the State Land Office's financial statements. The State Land Office should have recorded approximately \$26.8 million with the implementation of GASB 34.

Criteria: GASB 34, paragraph 18 states that donated capital assets should be reported at their estimated fair value at the time of acquisition.

Effect: Capital assets and net position were understated by \$26,835,822 in previous reporting periods.

Cause: The State Land Office didn't consider the granted land as the department's assets, since they were acting as a fiduciary agent and subsequently reconsidered that position.

Auditor's Recommendation: We recommend that the State Land Office report the value of the land on the financial statements at the historical value.

Management's Response: Management acknowledges that lands granted by the federal government pursuant to the Enabling Act of 1910 were not recorded in the financial statement. In 2006 studies conducted by contracted audit firm Moss Adams LLP concluded that donated land was held in trust and therefore not an asset to be recorded in the financial statements. The State Land Office under the direction of Moss Adams LLP did not include the asset. Management currently acknowledges that the granted lands should be recorded under GASB 34 paragraph 18.

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

EXIT CONFERENCE

Year Ended June 30, 2016

An exit conference to discuss the results of the audit and the audit report was held on November 29, 2016. In attendance were:

Representing State of New Mexico Commissioner of Public Lands:

Aubrey Dunn, Commissioner of Public Lands
Sandra Lopez, Assistant Commissioner of Administrative Services
Margaret Sena, Division Director of Administrative Division
George Rosenbaum, Assistant Commissioner for Royalty Management Division

Representing Moss Adams LLP

Amy Carter, Assurance Senior Manager

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