



State of
New Mexico
Commissioner of
Public Lands

Financial Statements
For the Year Ended June 30, 2017



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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
 Commissioner of Public Lands
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STATE OF NEW MEXICO
Commissioner of Public Lands
Official Roster
June 30, 2017

<u>Name</u>	<u>Title</u>
Aubrey Dunn	Commissioner of Public Lands
Laura Riley	Deputy Commissioner of Public Lands

Assistant Commissioners of Public Lands

Jack Sullivan	Acting General Counsel
Emily Strickler	Public Information Officer
Clyde Ward	Commercial Resources
Patrick Padilla	Oil, Gas and Mineral Resources
Sandra Lopez	Administrative Services
Michael Perry	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

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund of the New Mexico Commissioner of Public Lands (the "State Land Office"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State Land Office's basic financial statements as listed in the table of contents.

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 misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Land Office as of June 30, 2017, and the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the State Land Office are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities 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 State of New Mexico as of June 30, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

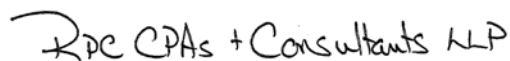
Our audit was conducted for the purpose of forming opinions on the State Land Office's financial statements and the budgetary comparison. The introductory section and Supporting Schedule I required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

Supporting Schedule I in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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, Supporting Schedule I is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The introductory section 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 October 24, 2017 on our consideration of the State Land Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Land Office's internal control over financial reporting and compliance.



RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
October 24, 2017

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STATE OF NEW MEXICO
Commissioner of Public Lands
Management's Discussion and Analysis
(Unaudited)
June 30, 2017

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, 2017. 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, 2017. The difference between the value of the assets and the liabilities is reflected as the value of the net assets. Increases or decreases in net assets measure whether the financial position of the State Land Office improved or deteriorated. Net assets legally limited to a particular use are reported as restricted. Unrestricted net assets are assets that can be used to fund operating expenses in future years.

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

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.

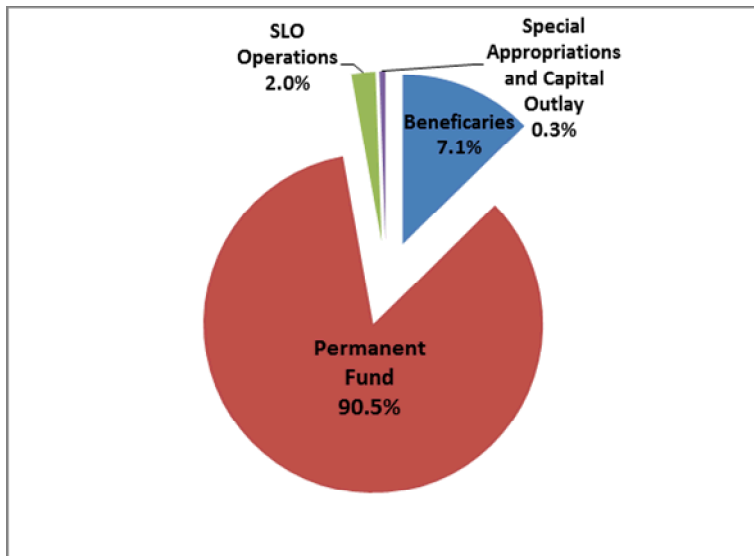
STATE OF NEW MEXICO
 Commissioner of Public Lands
 Management's Discussion and Analysis
 (Unaudited)
 June 30, 2017

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.

Beneficiary	LMF	LGPF	Total
Common Schools	\$71.5	\$613.2	\$684.7
Colleges & Universities	\$3.8	\$15.7	\$19.5
Other Schools	\$1.1	\$13.0	\$14.1
Hospitals	\$1.7	\$9.9	\$11.6
All Other Institutions	\$6.7	\$17.6	\$24.3
Total	\$84.8	\$669.4	\$754.2

Special Revenue Funds are used to record inflows that must be used for a specified purpose. The State Land Office uses four special revenue funds as clearing accounts for payments. Please refer to Note 1 to the Financial Statements for an explanation of these funds.

FINANCIAL HIGHLIGHTS



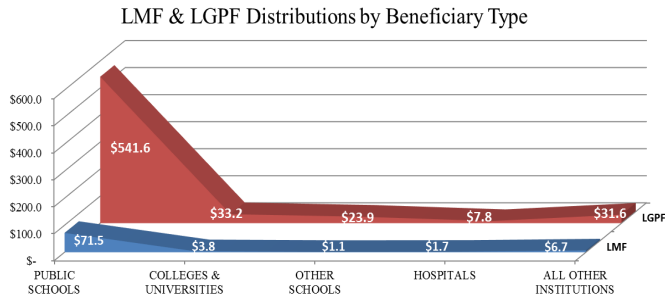
The Commissioner of Public Lands is responsible for providing for current and future revenues for specified beneficiaries, while ensuring the long-term health and productivity of State Trust Lands for future generations of New Mexicans. The Commissioner of Public Lands is an elected official pursuant 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 2017 the state trust lands generated total revenues of \$544.8 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. An additional \$119.1 million was added to FY 2017 due to a change in revenue recognition instituted by the Department of Finance and Administration. Land Maintenance Fund receipts totaled \$98 million from renewable resources, and \$2.9 million from miscellaneous income. Land Maintenance Funds (LMF) not spent for operations or retained for special appropriations, \$85 million or 8.4% were distributed directly to beneficiaries. 94% of the revenue generated came from resources extracted from state trust lands; \$563 million (98.4% from oil and gas royalties) was transferred to the Land Grant Permanent Fund (LGPF) at the State Investment Council.

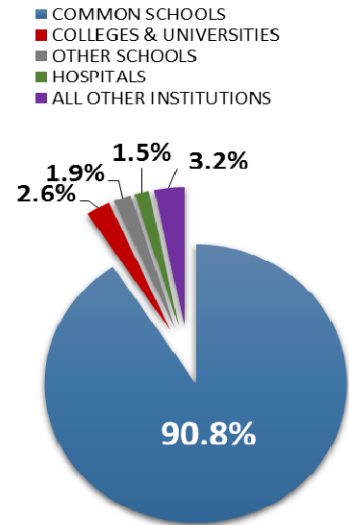
Total beneficiary earnings (in millions) from state trust lands by beneficiary type are described as follows. **Land Maintenance Funds** are distributed directly to beneficiaries at the end of each month. Earnings from royalties are transferred to the **Land Grant Permanent Fund (LGPF)** and are invested on behalf of the beneficiaries by the State Investment Council who manages the fund.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Management's Discussion and Analysis
 (Unaudited)
 June 30, 2017

The State Investment Council distributes LGPF earnings to beneficiaries based on the formula set in the Constitution. Distributions from the LGPF totaled \$638 million¹ in FY 2017¹. Distributions to state trust land beneficiaries from the Land Maintenance Fund totaled \$84.8 million. Total distributions from the Land Maintenance Fund and the Land Grant Permanent Fund totaled \$754.2 million. The following chart shows the distribution of funds (in millions) by beneficiary type during FY 2017.



Revenue Earned by Beneficiary Type



¹ State Investment Council: *Land Grant Permanent Fund; Fund Balance and Income Distribution Summary for the Fiscal Year Ended June 30, 2017 Un-audited; 7/24/2016*. For more information refer to the State Investment Council Financial Statements as of June 30, 2017.

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 Commissioner of Public Lands
 Management's Discussion and Analysis
 (Unaudited)
 June 30, 2017

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, 2017, with comparative balances for the fiscal years ended June 30, 2016.

Comparative Analysis of Statement of Net Position

	Government Activities			
	2017	2016	\$ Change	% Change
Current and other assets	\$ 196,072,027	\$ 13,805,382	\$ 182,266,645	1320.3%
Capital assets less accumulated depreciation	40,340,786	30,912,923	9,427,863	30.5%
Total assets	236,412,813	44,718,305	191,694,508	428.7%
Liabilities	189,249,081	3,612,204	185,636,877	5139.2%
Net assets				
Investments in capital assets	40,340,786	30,912,923	9,427,863	30.5%
Restricted Fund Balance				
Special Appropriations	7,293,996	10,617,046	(3,323,050)	-31.3%
Unrestricted Fund Balance	(471,050)	(423,868)	(47,182)	11.1%
Total net assets	47,163,732	41,106,101	6,057,631	14.7%
Total Liabilities and Net Assets	\$ 236,412,813	\$ 44,718,305	\$ 191,694,508	428.7%

Net Position increased by 14.7% in FY 2017 and reflects the increased value of capital assets due to a land trade in FY 2017. Liabilities increased due the change of four funds from agency funds to special revenue funds instituted by the Department of Finance and Administration.

The government-wide financial statement 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
 (Unaudited)
 June 30, 2017

Net Position and Changes in Net Position (Continued)

The following table presents the detail changes in net assets in agency for the fiscal year ended June 30, 2017, with comparative balances for the fiscal year ended June 30, 2016.

Comparative Analysis Statement of Activities

	Government Activities			
	FY 2017	FY 2016	\$ Change	% Change
Expenses				
General government	\$ (17,281,894)	\$ (15,087,835)	\$ (2,194,059)	14.5%
Program revenues	19,476,703	21,539,836	(25,360)	-0.1%
Reapportionable to other beneficiaries	(4,546,161)	(1,700,492)	(2,845,669)	167.3%
Net (Expense) Revenue	(2,351,352)	4,751,509	(5,065,088)	-106.6%
General revenues and (expenses)				
Transfers in	-	-	-	
Transfers out	(130,825)	(248,003)	117,178	-47.2%
General Fund appropriation	-	-	-	
Other income	148,156	4,323	143,833	3327.2%
Unrestricted investment earnings	-	343,036	(343,036)	-100.0%
Reversion to State General Fund	-	-	-	
Gain on sale of capital assets	7,074,802	26,298	7,048,504	26802.4%
Total General Revenues and Transfers	7,092,133	125,654	6,966,479	5544.2%
Change in Net Position	5,534,551	4,877,163	(12,031,567)	-246.7%
Net position, beginning of year	41,106,101	9,393,116	31,712,985	337.6%
Prior Period Adjustment	523,080	26,835,822	(26,312,742)	-98.1%
Restated net position, beginning of the year	41,629,181	36,228,938	5,400,243	14.9%
Net position, ending of year	\$ 47,163,732	\$ 41,106,101	\$ 6,057,631	14.7%

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.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Management's Discussion and Analysis
 (Unaudited)
 June 30, 2017

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 \$550,000 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.

CAPITAL ASSETS

The Agency's investment in capital assets as of June 30, 2017, amounted to \$40,340,786 net of accumulated depreciation. This investment in capital assets includes land, buildings, automobiles, furniture, equipment and machinery, data processing equipment. The total increase in the Agency's investment in capital assets for the current period was \$8,904,783 or 28.3%. The increase is due to a gain from a land exchange in FY 2017 and the capitalization of the Land Information and Management System (LIMS). The following table illustrates the change from FY 2016 to FY 2017.

Comparative Analysis of Capital Assets

Government Activities	June 30, 2017	June 30, 2016, as Restated	\$ Change	% Change
Land	\$ 34,683,250	\$ 27,611,054	\$ 7,072,196	25.6%
Buildings and library	5,172,542	4,726,736	445,806	9.4%
Furniture, fixtures and equipment	738,442	760,694	(22,252)	-2.9%
Data processing	6,105,228	1,672,268	4,432,960	265.1%
CIP - Land Information System	-	2,401,560	(2,401,560)	-100.0%
Automobiles	939,515	820,283	119,232	14.5%
Total Capital Assets	47,638,977	37,992,595	9,646,382	25.4%
Accumulated depreciation	(7,298,191)	(6,556,592)	(741,599)	11.3%
Capital assets, net	\$ 40,340,786	\$ 31,436,003	\$ 8,904,783	28.3%

STATE OF NEW MEXICO
Commissioner of Public Lands
Management's Discussion and Analysis
(Unaudited)
June 30, 2017

CURRENTLY KNOWN FACTS DECISIONS OR CONDITIONS OF FUTURE SIGNIFICANCE

During the last fiscal year, the State Land Office continued to experience record breaking earnings for Land Maintenance Rental Income, with revenues reported at \$102.4 million. When compared to Fiscal Year 2016, the State Land Office directly distributed 31.8% more to the beneficiaries in FY17 than was distributed in FY16. The State Land Office earned an average of \$1.8 million per day in FY17 from rentals and royalty revenues. Due to the decline in oil and gas prices, the State Land Office estimated conservatively with regard to revenue estimates and adjusted FY17 estimates to \$40/BBL. As oil and gas prices continue to fluctuate, revenue projections have been adjusted in FY18 to \$45/BBL and production from 3.8 million barrels to 4.5 million.

The State Land Office, in alignment with statewide requirements and the Department of Finance and Administration's directives, moved Agency funds to Special Revenue funds. The Special Revenue funds now consist of the Sales Expense Fund, Land Suspense fund, Oil and Gas Royalty fund, and Royalty Advance Payment fund.

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 the agency's Chief Financial Officer at (505) 827-5705. You can also reach them by mail at 310 Old Santa Fe Trail, PO Box 1148, Santa Fe, New Mexico 87501-1148.

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Net Position
 June 30, 2017

Exhibit A-1

	Governmental Activities
Assets	
Current assets:	
Interest in the State General Fund Investment Pool	\$ 104,022,852
Cash	400
Investments	13,433,748
Due from other state agencies	47,948
Receivables:	
Royalties	76,448,386
Interest assessments, net	2,109,867
Supplies inventory	8,826
Total current assets	196,072,027
Noncurrent assets:	
Capital assets, net of accumulated depreciation	40,340,786
Total noncurrent assets	40,340,786
<i>Total assets</i>	\$ 236,412,813
 Liabilities	
Current liabilities:	
Accounts payable	\$ 2,379,500
Accrued payroll and payroll liabilities	426,408
Compensated absences payable	507,810
Due to other state agencies	76,517,649
Undistributed receipts	109,417,714
Total current liabilities	189,249,081
<i>Total liabilities</i>	189,249,081
 Net position	
Net investment in capital assets	40,340,786
Restricted for capital projects and special appropriations	7,293,996
Unrestricted	(471,050)
<i>Total net position</i>	47,163,732
<i>Total liabilities and net position</i>	\$ 236,412,813

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Activities
 For the Year Ended June 30, 2017

Exhibit A-2

	Governmental Activities
Expenses	
General government	\$ 17,281,894
Less: Program revenues	
Charges for services	19,476,703
Less: reapportionment to beneficiaries	<u>(4,546,161)</u>
Charges for services, net	<u>14,930,542</u>
<i>Net program loss and change in net position</i>	<u>(2,351,352)</u>
General revenues and (transfers)	
Gain on trade of land	7,074,802
Interest income	793,770
Other income	148,156
Transfers to other state agencies, net	<u>(130,825)</u>
<i>Total general revenues and transfers</i>	<u>7,885,903</u>
Change in net position	<u>5,534,551</u>
Net position, beginning	<u>41,106,101</u>
Net position, restatement (Note 23)	523,080
Net position, beginning, as restated	<u>41,629,181</u>
<i>Net position, ending</i>	<u><u>\$ 47,163,732</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Balance Sheet
 Governmental Funds
 June 30, 2017

	General Fund 09800	Land Suspense Fund 77700	Oil and Gas Royalty Fund 26400
Assets			
Interest in the State General Fund Investment Pool	\$ 14,522,639	\$ 18,363,768	\$ 69,938,405
Cash	400	-	-
Investments	-	-	-
Due from other funds	27,533	-	9,050,000
Due from other state agencies	47,948	-	-
Receivables:			
Royalties	-	-	76,448,386
Interest assessments, net	-	2,109,867	-
Supplies inventory	8,826	-	-
<i>Total assets</i>	<u>\$ 14,607,346</u>	<u>\$ 20,473,635</u>	<u>\$ 155,436,791</u>
Liabilities and fund balances			
<i>Liabilities</i>			
Accounts payable	\$ 2,234,758	\$ -	\$ -
Accrued payroll and payroll liabilities	426,408	-	-
Due to other funds	-	-	-
Due to other state agencies	69,263	-	76,448,386
Undistributed receipts	4,546,161	20,473,635	78,988,405
<i>Total liabilities</i>	<u>7,276,590</u>	<u>20,473,635</u>	<u>155,436,791</u>
<i>Fund balances</i>			
Nonspendable	8,826	-	-
Spendable:			
Restricted for special & capital appropriations	7,270,984	-	-
Committed for projects	23,012	-	-
Unassigned	27,934	-	-
<i>Total fund balances</i>	<u>7,330,756</u>	<u>-</u>	<u>-</u>
<i>Total liabilities and fund balances</i>	<u>\$ 14,607,346</u>	<u>\$ 20,473,635</u>	<u>\$ 155,436,791</u>

The accompanying notes are an integral part of these financial statements.

Royalty Advance Payment Fund 51400	Sales Expense Fund 77600	Total
\$ 1,170,507	\$ 27,533	\$ 104,022,852
-	-	400
13,433,748	-	13,433,748
-	-	9,077,533
-	-	47,948
-	-	76,448,386
-	-	2,109,867
-	-	8,826
<u>\$ 14,604,255</u>	<u>\$ 27,533</u>	<u>\$ 205,149,560</u>
-	-	2,234,758
-	-	426,408
9,050,000	27,533	9,077,533
-	-	76,517,649
<u>5,554,255</u>	<u>-</u>	<u>109,562,456</u>
<u>14,604,255</u>	<u>27,533</u>	<u>197,818,804</u>
-	-	8,826
-	-	7,270,984
-	-	23,012
-	-	27,934
<u>-</u>	<u>-</u>	<u>7,330,756</u>
<u>\$ 14,604,255</u>	<u>\$ 27,533</u>	<u>\$ 205,149,560</u>

The accompanying notes are an integral part of these financial statements.

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STATE OF NEW MEXICO
Commissioner of Public Lands
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2017

Exhibit B-1
Page 2 of 2

Total fund balance for the governmental funds (Exhibit B-1)	\$ 7,330,756
Amounts reported for governmental activities in the Statement of Net Position is different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, and therefore are not reported in the funds.	40,340,786
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(507,810)</u>
<i>Total net position (Exhibit A-1)</i>	<u><u>\$ 47,163,732</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Funds
 For the Year Ended June 30, 2017

	General Fund 09800	Land Suspense Fund 77700	Oil and Gas Royalty Fund 26400
<i>Revenues</i>			
Rental income	\$ 17,367,154	\$ -	\$ -
Less: reappropriation to beneficiaries	(4,546,161)	-	-
Rental income, net	<u>12,820,993</u>	<u>-</u>	<u>-</u>
Other state funds	2,109,549	-	-
Interest income	793,770	-	-
Other income	<u>156,018</u>	<u>-</u>	<u>-</u>
<i>Total revenues</i>	<u>15,880,330</u>	<u>-</u>	<u>-</u>
<i>Expenditures</i>			
Current			
General Government:			
Personnel services and employee benefits	11,012,419	-	-
Contractual services	3,840,392	-	-
Other costs	1,576,916	-	-
Capital outlay	<u>2,639,048</u>	<u>-</u>	<u>-</u>
<i>Total expenditures</i>	<u>19,068,775</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(3,188,445)</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses)</i>			
Transfer to other state agencies, net	<u>(130,825)</u>	<u>-</u>	<u>-</u>
<i>Total other financing sources (uses)</i>	<u>(130,825)</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	(3,319,270)	-	-
Fund balance, beginning of year	<u>10,650,026</u>	<u>-</u>	<u>-</u>
<i>Fund balance, end of year</i>	<u>\$ 7,330,756</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Royalty Advance Payment Fund 51400	Sales Expense Fund 77600	Total
\$ -	\$ -	\$ 17,367,154
-	-	(4,546,161)
-	-	12,820,993
-	-	2,109,549
-	-	793,770
-	-	156,018
-	-	15,880,330
-	-	11,012,419
-	-	3,840,392
-	-	1,576,916
-	-	2,639,048
-	-	19,068,775
-	-	(3,188,445)
-	-	(130,825)
-	-	(130,825)
-	-	(3,319,270)
-	-	10,650,026
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,330,756</u>

The accompanying notes are an integral part of these financial statements.

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STATE OF NEW MEXICO
 Commissioner of Public Lands
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2017

Net change in fund balance - governmental funds \$ (3,319,270)

The change in net position reported for governmental activities in the statement of activities is different because:

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:

Capital outlay	2,639,048
Depreciation expense	(801,205)
Gain on trade of land	7,074,802
Loss on disposition of assets	(7,862)

Expenses in the Statement of Activities that do not consume current financial resources are not reported as expenditures in the funds:

Increase in compensated absences	(50,962)
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<i>Change in net position (Exhibit A-2)</i>	\$ 5,534,551
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 General Fund - Including Multi-Year Appropriations
 For The Year Ended June 30, 2017

Exhibit C-1

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues</i>				
Rental income	\$ 13,820,800	\$ 13,820,800	\$ 16,867,154	\$ 3,046,354
Less: reappropriation to beneficiaries	-	-	(4,546,161)	(4,546,161)
Rental income, net	<u>13,820,800</u>	<u>13,820,800</u>	<u>12,320,993</u>	<u>(1,499,807)</u>
Other services - interagency	1,040,000	1,040,000	2,109,549	1,069,549
Special appropriations	10,701,856	10,701,856	500,000	(10,201,856)
Interest income	791,300	791,300	793,770	2,470
Other income	34,800	34,800	156,018	121,218
<i>Total revenues</i>	<u>26,388,756</u>	<u>26,388,756</u>	<u>15,880,330</u>	<u>(9,008,619)</u>
<i>Fund balance budgeted</i>	<u>207,800</u>	<u>207,800</u>	<u>-</u>	<u>-</u>
<i>Total revenues and fund balance budgeted</i>	<u>26,596,556</u>	<u>26,596,556</u>	<u>15,880,330</u>	<u>(9,008,619)</u>
<i>Expenditures</i>				
Current:				
Personnel services and employee benefits	11,910,800	11,555,800	11,012,419	543,381
Contractual services	9,477,856	8,832,156	5,769,706	3,062,450
Other costs	5,207,900	6,208,600	2,286,650	3,921,950
<i>Total expenditures</i>	<u>26,596,556</u>	<u>26,596,556</u>	<u>19,068,775</u>	<u>7,527,781</u>
<i>Other financing sources (uses)</i>				
Transfers to other state agencies, net	-	-	(130,825)	(130,825)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(130,825)</u>	<u>(130,825)</u>
<i>Excess (deficiency) of revenues over expenditures and other financing resources</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,319,270)</u>	<u>\$ (16,667,225)</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 General Fund
 For The Year Ended June 30, 2017

Exhibit C-2

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
<i>Revenues</i>				
Rental income	\$ 13,820,800	\$ 13,820,800	\$ 16,867,154	\$ 3,046,354
Less: reapportionment to beneficiaries	-	-	(4,546,161)	(4,546,161)
Rental income, net	<u>13,820,800</u>	<u>13,820,800</u>	<u>12,320,993</u>	<u>(1,499,807)</u>
Other services - interagency	1,040,000	1,040,000	2,109,549	1,069,549
Special appropriations	-	-	-	-
Interest income	791,300	791,300	793,770	2,470
Other income	34,800	34,800	156,018	121,218
<i>Total revenues</i>	<u>15,686,900</u>	<u>15,686,900</u>	<u>15,380,330</u>	<u>1,193,237</u>
<i>Fund balance budgeted</i>	<u>207,800</u>	<u>207,800</u>	<u>-</u>	<u>-</u>
<i>Total revenues and fund balance budgeted</i>	<u>15,894,700</u>	<u>15,894,700</u>	<u>15,380,330</u>	<u>1,193,237</u>
<i>Expenditures</i>				
Current:				
Personnel services and employee benefits	11,505,800	11,105,800	10,864,772	241,028
Contractual services	2,641,000	2,801,000	2,592,259	208,741
Other costs	1,747,900	1,987,900	1,801,623	186,277
<i>Total expenditures</i>	<u>15,894,700</u>	<u>15,894,700</u>	<u>15,258,654</u>	<u>636,046</u>
<i>Other financing sources (uses)</i>				
Transfers to other state agencies, net	-	-	(130,825)	(130,825)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(130,825)</u>	<u>(130,825)</u>
<i>Excess (deficiency) of revenues over expenditures and other financing resources</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,149)</u>	<u>\$ 426,366</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 General Fund - Multi-Year Budgets for Special Appropriations
 For The Year Ended June 30, 2017

	General Fund - Multi Year Budgets		
	Budgeted Amounts		Actual
	Original	Final	
Land Management System - Laws of 2014, 2nd Session, Chapter 63, Section 7, Item 15 Reauthorized per Laws of 2016, Chapter 11, Section 7, Item 14			
<i>Revenues</i>			
Special appropriations	\$ 2,176,856	\$ 2,176,856	\$ -
<i>Expenditures</i>			
Personal services	90,000	90,000	88,879
Contractual services	2,086,856	2,046,856	2,046,856
Other	-	40,000	16,880
Total budgeted expenditures	<u>2,176,856</u>	<u>2,176,856</u>	<u>2,152,615</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,152,615)</u>
ONGARD Replacement - Laws of 2016, Chapter 11, Section 7, Item 5			
<i>Revenues</i>			
Special appropriations	\$ 5,000,000	\$ 5,000,000	\$ -
<i>Expenditures</i>			
Personal services	250,000	250,000	-
Contractual services	2,250,000	2,250,000	130,826
Other	2,500,000	2,500,000	-
Total budgeted expenditures	<u>5,000,000</u>	<u>5,000,000</u>	<u>130,826</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (130,826)</u>
Right of Way Digitization Phase 3 - Laws of 2016, Chapter 11, Section 5, Item 31			
<i>Revenues</i>			
Special appropriations	\$ 550,000	\$ 550,000	\$ -
<i>Expenditures</i>			
Personal services	15,000	60,000	58,768
Contractual services	535,000	490,000	489,965
Total budgeted expenditures	<u>550,000</u>	<u>550,000</u>	<u>548,733</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (548,733)</u>

The accompanying notes are an integral part of these financial statements.

for Special Appropriations

<u>Prior Year Actual</u>	<u>Total</u>	<u>Variances Favorable (Unfavorable) Final to Actual</u>
\$ 2,176,856	\$ 2,176,856	\$ -
-	88,879	1,121
-	2,046,856	-
-	16,880	23,120
-	2,063,736	24,241
<u>\$ 2,176,856</u>	<u>\$ 113,120</u>	<u>\$ 24,241</u>
\$ 5,000,000	\$ 5,000,000	\$ -
-	-	250,000
-	130,826	2,119,174
-	-	2,500,000
-	130,826	4,869,174
<u>\$ 5,000,000</u>	<u>\$ 4,869,174</u>	<u>\$ 4,869,174</u>
\$ 550,000	\$ 550,000	\$ -
-	58,768	1,232
-	489,965	35
-	548,733	1,267
<u>\$ 550,000</u>	<u>\$ 1,267</u>	<u>\$ 1,267</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 General Fund - Multi-Year Budgets for Special Appropriations
 For The Year Ended June 30, 2017

General Fund - Multi Year Budgets			
Right of Way Digitization Laws of 2017, Chapter 135, Section 5, Item 15			
	Budgeted Amounts		Actual
<i>Revenues</i>	Original	Final	
Special appropriations	\$ 550,000	\$ 550,000	\$ 550,000
<i>Expenditures</i>			
Personal services	50,000	50,000	-
Contractual services	500,000	500,000	-
Total budgeted expenditures	550,000	550,000	-
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ 550,000
 Restoration and Remediation Laws of 2016, Chapter 11, Section 5, Item 30			
<i>Revenues</i>			
Special appropriations	\$ 500,000	\$ 500,000	\$ -
<i>Expenditures</i>			
Contractual services	500,000	500,000	500,000
Total budgeted expenditures	500,000	500,000	500,000
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ (500,000)
 Capital Project - Electrical Upgrades - Laws of 2013, Chapter 226, Section 55, Item 1			
General Fund - Multi Year Budgets			
<i>Revenues</i>			
Special appropriations	\$ 375,000	\$ 375,000	\$ -
<i>Expenditures</i>			
Contractual services	60,000	52,300	-
Other	315,000	322,700	19,160
Total budgeted expenditures	375,000	375,000	19,160
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ (19,160)

The accompanying notes are an integral part of these financial statements.

for Special Appropriations

<u>Prior Year Actual</u>	<u>Total</u>	<u>Variances Favorable (Unfavorable) Final to Actual</u>
\$ -	\$ 550,000	\$ -
-	-	50,000
-	-	500,000
-	-	550,000
<u>\$ -</u>	<u>\$ 550,000</u>	<u>\$ 550,000</u>

<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>
-	500,000	\$ -
-	500,000	\$ -
<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>

for Capital Projects

<u>\$ 375,000</u>	<u>\$ 375,000</u>	<u>\$ -</u>
52,228	52,228	72
<u>299,418</u>	<u>318,578</u>	<u>4,122</u>
351,646	370,806	4,194
<u>\$ 23,354</u>	<u>\$ 4,194</u>	<u>\$ 4,194</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 General Fund - Multi-Year Budgets for Special Appropriations
 For The Year Ended June 30, 2017

General Fund - Multi Year Budgets			
	Budgeted Amounts		Actual
	Original	Final	
Capital Project - Security and Front Entry Upgrades - Laws of 2013, Chapter 226, Section 55, Item 2			
<i>Revenues</i>			
Special appropriations	\$ 105,000	\$ 105,000	\$ -
<i>Expenditures</i>			
Contractual services	60,000	70,000	-
Other	45,000	35,000	-
Total budgeted expenditures	105,000	105,000	-
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ -
 Capital Project - Morgan Hall Renovation -Laws of 2013, Chapter 226, Section 55, Item 3			
<i>Revenues</i>			
Special appropriations	\$ 90,000	\$ 90,000	\$ -
<i>Expenditures</i>			
Contractual services	90,000	87,000	7,547
Other	-	3,000	-
Total budgeted expenditures	90,000	90,000	7,547
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ (7,547)
 Capital Project - Morgan Hall Renovation Phase II - Laws of 2013, Chapter 226, Section 55, Item 3			
<i>Revenues</i>			
Special appropriations	\$ 720,000	\$ 720,000	\$ -
<i>Expenditures</i>			
Contractual services	720,000	-	-
Other	-	720,000	334,565
Total budgeted expenditures	720,000	720,000	334,565
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ (334,565)

The accompanying notes are an integral part of these financial statements.

for Capital Projects

Prior Year Actual	Total	Variances Favorable (Unfavorable) Final to Actual
\$ 105,000	\$ 105,000	\$ -
69,955	69,955	45
34,075	34,075	925
104,030	104,030	970
<u>\$ 970</u>	<u>\$ 970</u>	<u>\$ 970</u>
\$ 90,000	\$ 90,000	\$ -
49,243	56,790	30,210
951	951	2,049
50,194	57,741	32,259
<u>\$ 39,806</u>	<u>\$ 32,259</u>	<u>\$ 32,259</u>
\$ 720,000	\$ 720,000	\$ -
-	-	-
277,940	612,505	107,495
277,940	612,505	107,495
<u>\$ 442,060</u>	<u>\$ 107,495</u>	<u>\$ 107,495</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 General Fund - Multi-Year Budgets for Special Appropriations
 For The Year Ended June 30, 2017

General Fund - Multi Year Budgets			
	Budgeted Amounts		Actual
	Original	Final	
Capital Project - Boiler Replacement - Laws of 2015, Chapter 3, Section 81, Item 1			
<i>Revenues</i>			
Special appropriations	\$ 135,000	\$ 135,000	\$ -
<i>Expenditures</i>			
Contractual services	15,000	15,000	2,253
Other	120,000	120,000	114,422
Total budgeted expenditures	135,000	135,000	116,675
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ (116,675)
 Capital Project - Electrical Distribution System - Laws of 2015, Chapter 3, Section 81, Item 2			
<i>Revenues</i>			
Special appropriations	\$ 350,000	\$ 350,000	\$ -
<i>Expenditures</i>			
Contractual services	20,000	20,000	-
Other	330,000	330,000	-
Total budgeted expenditures	350,000	350,000	-
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ -
 Capital Project - Storage System - Laws of 2016, Chapter 81, Section 41, Item 1			
<i>Revenues</i>			
Special appropriations	\$ 150,000	\$ 150,000	\$ -
<i>Expenditures</i>			
Other	150,000	150,000	-
Total budgeted expenditures	150,000	150,000	-
<i>Excess (deficiency) of revenues over expenditures</i>	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

for Capital Projects

<u>Prior Year Actual</u>	<u>Total</u>	<u>Variances Favorable (Unfavorable) Final to Actual</u>
\$ 135,000	\$ 135,000	\$ -
9,012	11,265	3,735
-	114,422	5,578
<u>9,012</u>	<u>125,687</u>	<u>9,313</u>
<u>\$ 125,988</u>	<u>\$ 9,313</u>	<u>\$ 9,313</u>
\$ 350,000	\$ 350,000	\$ -
-	-	20,000
-	-	330,000
<u>-</u>	<u>-</u>	<u>350,000</u>
<u>\$ 350,000</u>	<u>\$ 350,000</u>	<u>\$ 350,000</u>
\$ 150,000	\$ 150,000	\$ -
-	-	150,000
<u>-</u>	<u>-</u>	<u>150,000</u>
<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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.

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 the State general fund per section 19-1-1.

B. Special Revenue Funds

Special Revenue funds are used to record inflows that must be used for a specified purpose. The special revenue funds of the State Land Office are classified as such because they serve as clearing accounts for payments of resources that are restricted or committed to the specified beneficiaries. As these resources are transferred to the beneficiaries, they are not recognized as a revenue or an expense of any of the special revenue funds; however, they serve as the foundation for the funds. The special revenue 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 accounted for in 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 Land Grant 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.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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 Land Grant Permanent Fund each month.

In the current year, the State Land Office to align with statewide requirements changed their distribution method and is now distributing all royalties earned for the periods through June 30, 2017. This includes royalties received up to 55 days after fiscal year end and distributable up to 85 days after fiscal year end. The related accounts receivable and revenue for these royalties will be recognized by the Land Grant Permanent Fund in fiscal year 2017.

The royalties presented as undistributed receipts in the balance sheet represent royalty payments received as advances but not yet allowed to be distributed.

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 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.

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 from 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.

STATE OF NEW MEXICO
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June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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 and the Special Revenue Funds.

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 are not paid by the statutory deadline. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

The State Land Office is required to submit a budget report for the General Fund 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, 2017.

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.

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NOTE 1. Summary of Significant Accounting Policies (continued)

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.”

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

Capital Assets. Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Land trades of trust land are valued at the fair value as of the date of acquisition. 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. Information Technology Equipment including software is being capitalized and included in data processing in accordance with NMAC 2.20.1.9 C (5). 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:

Buildings and Library	20 – 40 years
Furniture, fixtures, and equipment	3 – 10 years
Data processing	6 – 10 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;

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NOTE 1. Summary of Significant Accounting Policies (continued)

2. Coverages to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverages for State of New Mexico employees.

At June 30, 2017, 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 footnote 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 include amounts that 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, 2017, 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.

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 2014, Chapter 63, Section 7, Item 15 and extended per Laws 2016, Chapter 11, Section 7, Item 14.

Spendable - Restricted for ONGARD Modernization. This reserve was created to replace the oil and natural gas administration and revenue database system per Laws of 2016, Chapter 11, Section 7, Item 5. The appropriation was re-appropriated to the Commissioner of Public Lands per Laws 2017, Chapter 135, Section 7, Item 7.

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 framework per Laws of 2016, Chapter 11, Section 5, Item 31.

Spendable - Restricted for Right of Way Digitization. This reserve was created to complete conversion of historical right of way parcel location information into a geographic information system framework per Laws of 2017, Chapter 135, Section 5, Item 15.

Spendable - Restricted for natural resource restoration and remediation. This reserve was created for natural resource restoration and remediation on state trust land per Laws of 2016, Chapter 11, Section 5, Item 30.

STATE OF NEW MEXICO
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NOTE 1. Summary of Significant Accounting Policies (continued)

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 (reauthorized for parking lot repairs and improvements) at the State Land Office Building, and renovate wiring per Laws of 2014, Chapter 66, Section 48, Items 1, 2, and 3.

Spendable – Restricted for Capital Projects. This reserve was created for boiler replacement, electrical upgrades phase II, and continue renovation of wiring infrastructure at the State Land Office Building, per Laws of 2015, Chapter 3, Section 81, Items 1, 2, and 3.

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, and install space saver storage systems at the State Land Office Building, per Laws of 2016, Chapter 3, Section 41, Item 1.

Spendable – Committed for Nut Grassland. 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 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 represents an acquisition of net position that applied to a future period and so will not be recognized until then. The State Land Office has no items that meet this criterion.

NOTE 2. Investment in the State General Fund Investment Pool

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013.

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 Commissioner of Public Lands
 Notes to Financial Statements
 June 30, 2017

NOTE 2. Investment in the State General Fund Investment Pool (continued)

In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

The State Controller indicated on August 8, 2016 that calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months; resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP and that all claims will be honored at face value.

The State Land Office has established daily and monthly procedures that mitigate the risk of misstatement of the State Land Offices' balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

NOTE 3. Cash and Investment in the State General Fund Investment Pool

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

As of June 30, 2017 the State Land Office had the following cash and investment in the State General Fund Investment Pool:

Account Account Name/Type	Account Number	Balance per Financial Statements
Governmental funds		
General Fund		
On deposit with the State Treasurer		
Land Maintenance Fund	539-09800	\$ 14,522,639
Petty Cash	N/A	<u>400</u>
Total - General Fund		<u>14,523,039</u>
Special revenue funds		
On deposit with the State Treasurer		
Land Suspense Fund	539-77700	18,363,768
Oil and Gas Royalty Fund	539-26400	69,938,405
Royalty Advance Payment Fund	539-51400	1,170,507
Sales Expense Fund	539-77600	<u>27,533</u>
Total - Special Revenue Funds		<u>89,500,213</u>
Total Cash and Cash Equivalents		<u>\$ 104,023,252</u>

There were no differences between State Treasurer's Office (STO) and reconciled cash balances for the State Land Office as of June 30, 2017.

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NOTE 3. Cash and Investment in the 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.

The State Land Office's cash funds, other than petty cash and change funds, are deposited into its accounts with the New Mexico State Treasurer's Office, which are pooled and invested by the State Treasurer or deposited by the Department with local banks as State Agency cash deposits to the credit of the New Mexico State Treasurer's Office.

Provisions of the New Mexico State Public Money Act (Article 10, Sections 6-10-1 to 6-10-63 NMSA 1978) require a bank to be qualified to receive deposits of public monies by depositing collateral security or by giving bond at a minimum level of 50 percent to collateralize governmental cash deposits when they exceed the amounts of depository insurance by the federal deposit insurance corporation (FDIC) or the national credit union administration (NCUA).

The State Treasurer's Office financial statements disclose the type of purchased security investments held (i.e., bond, note, Treasury bill, etc.), categories of risk involved, security number, Committee on Uniform Securities Identification Procedures (CUSIP) identification number, fair market value, maturity date of securities held, name of the custodian and the place of safekeeping for all "collateral" pledged to secure State Agency cash deposits. The bank balances as of June 30, 2017, are entirely insured or collateralized with securities held by the agent in the bank's name.

Cash in Banks consists of amounts temporarily deposited in local bank accounts statewide prior to being "swept" nightly into the department's cash accounts at the State Treasurer's Office. See the Schedule of Cash and Investments in the Supporting Schedules Section.

Petty cash of \$400 was held by the State Land Office for payment of emergency business expenses requiring immediate payment or purchase of goods or services essential to perform the agency mission.

As of June 30, 2017 the State Land Office's cash balances (called "Interest in the State General Fund Investment Pool") have been reconciled to the State Land Office's portion of the GFIP. See the Schedule of Cash and Investments in the Supporting Schedules Section.

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, 2017.

STATE OF NEW MEXICO
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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 \$13,433,748. This represents the Royalty Advance Payment Fund's proportionate share of the quoted market prices of the securities held in Investment Funds. The Funds invest in equity securities, U.S. Treasury and Federal Agency notes, industrial and utility bonds and notes, and overnight repurchase agreements. The investments held by the State Investment Council for the State Land Office are uninsured and unregistered and there is no regulatory oversight on the Investment Funds.

Investment 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.

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.

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NOTE 4. Investments (continued)

	Total	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	\$ 5,053,032	\$ 5,053,032	\$ -	\$ -
Large cap index pool	4,751,216	-	4,751,216	-
Total equity securities	9,804,248	5,053,032	4,751,216	-
Debt securities				
Core plus bonds pool	3,629,500	-	3,629,500	-
Total debt securities	3,629,500	-	3,629,500	-
Total investments	<u>\$ 13,433,748</u>	<u>\$ 5,053,032</u>	<u>\$ 8,380,716</u>	<u>\$ -</u>

NOTE 5. Receivables

Interest assessment receivables in the Land Suspense Fund of \$2,223,786 represent uncollected amounts which have been billed by the State Land Office for late payment of royalties due.

Management has recorded an allowance of \$113,919 at June 30, 2017 for interest assessment receivables. Some interest assessments may be abated.

The State of New Mexico collects a royalty based upon the value of oil and gas production on state lands. Remitters of oil and gas royalties to the state report the royalties due, plus property identification (lease numbers) and production volumes in one of two ways: (1) remitters using paper reports send those reports and royalty cash payments to the 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.

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NOTE 6. Capital Assets

A summary of changes in capital assets follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Restatement</u> <u>(Note 23)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 252,152	\$ -	\$ -	\$ -	\$ 252,152
Trust Land	26,835,822	523,080	7,100,000	27,804	34,431,098
CIP Land Information System	2,401,560	-	1,929,314	4,330,874	-
Total	<u>29,489,534</u>	<u>523,080</u>	<u>9,029,314</u>	<u>4,358,678</u>	<u>34,683,250</u>
Capital assets being depreciated:					
Buildings and Library Furniture, fixtures, and equipment	4,726,736	-	445,806	-	5,172,542
Data processing	760,694	-	-	22,252	738,442
Automobiles	1,672,268	-	4,454,465	21,505	6,105,228
Total	<u>820,283</u>	<u>-</u>	<u>140,337</u>	<u>21,105</u>	<u>939,515</u>
Total capital assets	<u>37,469,515</u>	<u>523,080</u>	<u>14,069,922</u>	<u>4,423,540</u>	<u>47,638,977</u>
Less accumulated depreciation:					
Buildings and Library Furniture, fixtures, and equipment	4,040,056	-	130,458	-	4,170,514
Data processing	568,570	-	32,245	16,996	583,819
Automobiles	1,446,161	-	522,341	21,505	1,946,997
Total	<u>501,805</u>	<u>-</u>	<u>116,161</u>	<u>21,105</u>	<u>596,861</u>
Net capital assets	<u>\$ 30,912,923</u>	<u>\$ 523,080</u>	<u>\$ 13,268,717</u>	<u>\$ 4,363,934</u>	<u>\$ 40,340,786</u>

The State Land Office does not have any debt related to capital assets as of June 30, 2017.

Depreciation expense for the agency amounted to \$801,205 and is considered a general governmental expense. See note 23 regarding the restatement to trust land.

See Note 23 for more information regarding the State Land Office's restatement of trust land for the year ended June 30, 2017.

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NOTE 7. Compensated Absences

The following represents changes in compensated absences for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 456,848	\$ 493,930	\$ 442,968	\$ 507,810	\$ 507,810

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, 2017 consisted of:

Amount Due from Other Funds			Amount Due to Other Funds		
Fund	Fund #	Amount	Fund	Fund #	Amount
Oil and Gas			Royalty Advance		
Royalty Fund	26400	\$ 9,050,000	Payment Fund	51400	\$ 9,050,000
General Fund	09800	27,533	Sales Expense Fund	77600	27,533
Total		\$ 9,077,533			\$ 9,077,533

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 \$27,533 represents interfund balances that are a result of a reimbursement owed between the funds and are expected to be paid within one year.

NOTE 9. Due From and Due To Other State Agencies

Due from and due to other state agencies at June 30, 2017 consisted of:

Amount Due from Other Agencies			Other Agencies		
Fund	Fund #	Amount	Fund	Fund #	Amount
General Fund	09800	\$ 47,948	Taxation and Revenue Department	17200	\$ 47,948

The Taxation and Revenue Department owed the State Land Office \$47,948 for the May and June 2017 ONGARD Replacement expense reimbursements.

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NOTE 9. Due From and Due To Other State Agencies (continued)

Amount Due to Other Agencies			Other Agencies		
Fund	Fund #	Amount	Fund	Fund #	Amount
General Fund	09800	\$ 69,263	Taxation and Revenue Department		
				17200	\$ 69,263
General Fund	09800	<u>76,448,386</u>	State Investment Council		
				60100	<u>76,448,386</u>
Total		<u>\$ 76,517,649</u>			<u>\$ 76,517,649</u>

The State Land Office owed the Taxation and Revenue Department \$69,263 for the June 2017 payment of the ONGARD Service Center expenses. The State Land Office owed the State Investment Council \$76,448,386 for May 2017 and June 2017 oil and gas royalty sales and distribution.

NOTE 10. Transfers To/From Other State Agencies

Transfers at June 30, 2017, consisted of:

Transfer out to the State of New Mexico Tax and Revenue Department (172/33300) from the State Land Office's General Fund (53900/09800) for \$2,402,464. This amount is related to the ONGARD replacement project.

Transfer in from the State of New Mexico Tax and Revenue Department (17200/33300) to the State Land Office's General Fund (53900/09800) for \$2,271,639. This amount is related to the ONGARD replacement 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.

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, 2017, 2016 and 2015 were \$1,300,795, \$1,276,984, and \$1,340,081, and, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

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.

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, 2017, 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, 2017, 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.

STATE OF NEW MEXICO
 Commissioner of Public Lands
 Notes to Financial Statements
 June 30, 2017

NOTE 12. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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, 2017, 2016, and 2015 were \$153,125, \$150,322, and \$157,804, 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, 2017 were \$129,522. Future minimum lease payments under these operating leases are as follows:

<u>Year ended June 30,</u>	<u>Amounts</u>
2018	\$ 102,008
2019	67,940
2020	<u>46,182</u>
Total	<u><u>\$ 216,130</u></u>

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, 2017, no such claims have been asserted by either federal or state environmental agencies. According to management of the State Land Office, if such a claim were filed, the State would have the right to seek contribution from operators, arrangers and transporters at the site. In addition, the State might be able to reach a settlement agreement with the environmental agency and allow the State to pursue its claims against the other potentially responsible parties. As holder of the legal title to the state lands, the State of New Mexico alone could be liable for the costs of clean-up in the absence of any other potentially responsibility party. However, there is no existing case law to determine if this liability would be the responsibility of the State of New Mexico or the assets of the trust whose beneficiaries hold equitable title to the state lands (i.e., State Land Office).

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 of any potential liabilities to be material to the financial statements as of June 30, 2017 is remote.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

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 the “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 State Land Office (SW) entered into the “Agreement” pursuant to the New Mexico Joint Powers Agreement Act, Section 11-1-1 *et seq* NMSA 1978, the Department of Energy 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

The New Mexico Energy Minerals & Natural Resources Department (EMNRD) and State Land Office entered into the “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 the “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.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

NOTE 16. Special Appropriations

In the 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 \$24,242 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

In the Laws of 2016, Chapter 11, Section 7, Item 5, the State Land Office through NM Taxation and Revenue was appropriated \$5,000,000 to replace the oil and natural gas administration and revenue database system. The remaining balance on this appropriation was \$4,869,175 at June 30, 2017. Per Laws of 2017, Chapter 135, Section 7 the appropriation was re-appropriated to the Commissioner of Public Lands. The period of time for expending the appropriation is through fiscal year 2018. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

In the 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. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation was \$1,267 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

In the Laws of 2017 Chapter 135, Section 5, Item 15, the State Land Office was appropriated \$550,000 to convert historical right of way parcel location information into a geographic information system framework. The period of time for expending the appropriation is through fiscal year 2018. The remaining balance on this appropriation was \$550,000 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

In the 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 \$0 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

NOTE 17. Capital Projects

In the 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 at Morgan Hall. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation is \$4,194 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

In the 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 at Morgan Hall. The period of time for expending the appropriation is through fiscal year 2017. The remaining balance on this appropriation is \$970 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

In the 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 \$32,259 at June 30, 2017.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

NOTE 17. Capital Projects (continued)

All unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the beneficiaries.

In the 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 \$107,496 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries.

In the 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. Per Laws of 2017, Chapter 133, Section 111, the appropriation was reauthorized for parking lot repairs. The remaining balance on this appropriation was \$360,000 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries. This appropriation has not yet been budgeted by the State Land Office.

In the 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, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2018 shall revert to the beneficiaries. This appropriation has not yet been budgeted by the State Land Office.

In the 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 \$9,314 at June 30, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2019 shall revert to the beneficiaries.

In the 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, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2019 shall revert to the beneficiaries.

In the 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, 2017. All unexpended or unencumbered balance remaining at the end of fiscal year 2019 shall revert to the beneficiaries. This appropriation has not yet been budgeted by the State Land Office.

In the 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, 2017. 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 Financial Statements
 June 30, 2017

NOTE 18. 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, 2017 follows:

Description	Nonspendable	Restricted and Committed Purposes
General Fund		
Supplies-Inventory	\$ 8,826	\$ -
Restricted - Refunds - NMSA 1978 Section 19-7-62	-	500,000
Restricted - Ongard Replacement - L 16 C11 S007 I015	-	4,869,174
Restricted - R/W Digitization - L17 C135 S005 I15	-	550,000
Restricted - Capital Projects	-	1,351,810
Committed - Nutt Grassland - Other gifts/grants	-	23,012
Total	<u>\$ 8,826</u>	<u>\$ 7,293,996</u>

NOTE 19. 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 20. 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, 2017, the State Land Office received lease revenue of \$2,104 relating to these leases.

NOTE 21. Subsequent Accounting Pronouncements

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Agency does is still evaluating how this pronouncement will affect the financial statements.

In March 2016, GASB Statement No. 81 *Irrevocable Split-Interest Agreements* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

NOTE 21. Subsequent Accounting Pronouncements (continued)

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84 *Fiduciary Activities* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85 *Omnibus 2017* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Agency is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86 *Certain Debt Extinguishment Issues* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

In June 2017, GASB Statement No. 87 *Leases* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Agency is still evaluating how this pronouncement will affect the financial statements.

NOTE 22. GASB 68 Financial Reporting and Disclosure for Cost-Sharing Pension Plans by Employers (PERA)

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico (the State) has implemented the standard for the fiscal year ending June 30, 2017.

The State Land Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, total pension liability exceeds Plan net position resulting in a net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the new pension liability, pension expense and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

STATE OF NEW MEXICO
Commissioner of Public Lands
Notes to Financial Statements
June 30, 2017

NOTE 23. Restatement of Net Position

The State Land Office has restated net position in the amount of \$523,080 related to the financial gain on a land trade that occurred during fiscal year 2016. The State Land Office traded land that had been valued at \$1,920 based upon the initial valuation of the State Land Office's Land at \$3 per acre for land valued at \$525,000.

NOTE 24. Subsequent Events

The State Land Office has evaluated subsequent events through October 24, 2017, which is the date the financial statements have been issued and have determined no events require disclosure or adjustment to the financial statements.

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
 Commissioner of Public Lands
 Schedule of Cash and Investment Accounts
 June 30, 2017

Schedule I

Bank Name/ Account Name	Account Number	Bank Balance	Reconciling Items	Book Balance
<i>New Mexico State Treasurer</i>				
<i>Interest in the State General Fund Investment Pool</i>				
Land Maintenance Fund	539-09800	\$ 14,522,639	\$ -	\$ 14,522,639
Oil and Gas Royalty Fund	539-26400	69,938,405	-	69,938,405
Sales Expense Fund	539-77600	27,533	-	27,533
Land Suspense Fund	539-77700	18,363,768	-	18,363,768
Royalty Advance Payment Fund	539-51400	1,170,507	-	1,170,507
<i>Total New Mexico State Treasurer</i>		<u>104,022,852</u>	<u>-</u>	<u>104,022,852</u>
<i>New Mexico State Investment Council</i>				
Royalty Advance Payment Fund	Investment	13,433,748	-	13,433,748
<i>Total New Mexico State Investment Council</i>		<u>13,433,748</u>	<u>-</u>	<u>13,433,748</u>
Petty cash		400	-	400
<i>Total cash and investments</i>		<u>\$ 117,457,000</u>	<u>\$ -</u>	<u>\$ 117,457,000</u>
 Cash and investments per financial statements				
Investment in the State General Fund Investment Pool per Exhibit A-1				\$ 104,022,852
Cash per Exhibit A-1				400
Investments per Exhibit A-1				<u>13,433,748</u>
<i>Total cash and investments</i>				<u>\$ 117,457,000</u>

See independent auditors' report.

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COMPLIANCE SECTION



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

INDEPENDENT AUDITORS' REPORT

Mr. Aubrey Dunn
State of New Mexico
Commissioner of Public Lands
and
Mr. Tim 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 New Mexico Commissioner of Public Lands (the "State Land Office") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State Land Office's basic financial statements, and have issued our report thereon dated October 24, 2017.

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 State Land Office's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

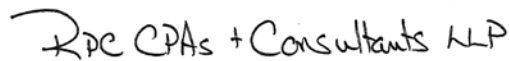
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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*.

Purpose of this Report

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



RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
October 24, 2017

STATE OF NEW MEXICO
Commissioner of Public Lands
Schedule of Findings and Responses
June 30, 2017

Schedule II

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors’ report issued | Unmodified |
| 2. Internal Control over financial Reporting | |
| a. Material weaknesses identified? | None Noted |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Noted |
| c. Noncompliance material to the financial statements noted? | None Noted |

SECTION II – FINANCIAL STATEMENT FINDINGS

None Noted

SECTION III – PRIOR YEAR FINDINGS

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

STATE OF NEW MEXICO
Commissioner of Public Lands
Other Disclosures
June 30, 2017

OTHER DISCLOSURES

Exit Conference

An exit conference was held on October 24, 2017. The following individuals were in attendance:

Representing Commissioner of Public Lands:

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

Representing RPC CPAs + Consultants, LLP:

Danny Martinez, CPA, CGFM, CGMA	Audit Partner
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The financial statements were prepared by the management of the State Land Office.