



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS

June 30, 2019

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State of New Mexico Commissioner of Public Lands
Official Roster
June 30, 2019

<u>Name</u>	<u>Title</u>
Stephanie Garcia Richard	Commissioner of Public Lands
Sunalei Stewart	Deputy Commissioner of Public Lands
Tarin Nix	Deputy Commissioner of Public Lands

Assistant Commissioners of Public Lands

Ari Biernoff	Acting General Counsel
Angie Poss	Communications
Craig Johnson	Commercial Resources
Jordan Kessler	Oil, Gas, and Mineral Resources
Donna Sandoval	Administrative Services
Howard Gross	Surface Division

Division Directors

Allison Marks	Oil, Gas, and Minerals Division
Dana Strang	Field Operations Division
James Bordegaray	Commercial Leasing Division
Danny Martinez	Royalty Management Division
Lesley Schimoler	Records Management Division
Margaret Sena	Administrative Services Division
Selena Romero	Human Resources Division
Bobby Gallegos	Facilities Management Division

Report of Independent Auditors

Ms. Stephanie Garcia Richard
State of New Mexico
Commissioner of Public Lands
Mr. Brian Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds with a legally adopted budget of New Mexico Commissioner of Public Lands (the State Land Office), an agency of the State of New Mexico, as of and for the year ended June 30, 2019, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds with a legally adopted budget of the State Land Office as of June 30, 2019, and the respective changes in financial position 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, 2019, 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 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 financial statements that collectively comprise the State Land Office's basic financial statements. The introductory section and supplemental budget comparisons are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and supplemental budget comparisons 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 30, 2019 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 solely 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 effectiveness of the State Land Office's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Land Office's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 30, 2019

State of New Mexico Commissioner of Public Lands

Management's Discussion and Analysis

June 30, 2019

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 (the State Land Office's) 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, 2019. 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

The State Land Office's basic financial statements are presented in four parts, in the following order:

1. Government-wide financial statements,
2. Fund financial statements,
3. Budgetary comparison statements, and
4. Notes to the basic financial statements

Government-Wide Financial Statements

The government-wide financial statements include the first two financial statements, the statement of net position and the statement of activities. These statements report information on the financial activities and resources of the State Land Office as a whole. The State Land Office's operations are financed by Land Maintenance Fund (LMF) revenue appropriated as other state funds, which includes rental income, interest income, other state funds, and other income on the fund financial statements.

The government-wide statement of net position reports the assets of the State Land Office and the corresponding claims and liabilities against those assets as of June 30, 2019. The difference between the value of the assets and the liabilities is reflected as the value of the net position. Increases or decreases in net position measure whether the financial position of the State Land Office improved or deteriorated. Net position legally limited to a particular use are reported as restricted. Unrestricted net position represents balances 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 may be imposed on those financial resources. The State Land Office uses two types of governmental funds to account for its financial activities: the general fund and special revenue funds:

**State of New Mexico Commissioner of Public Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2019**

The general fund is 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.

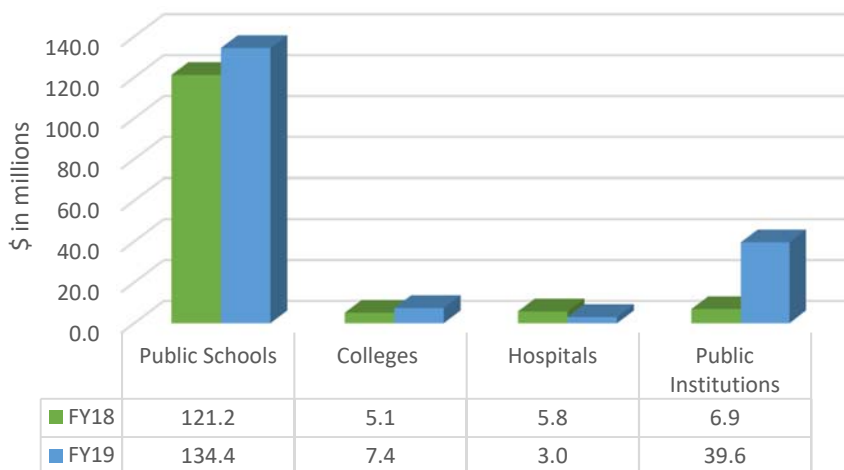
Special revenue funds are used to records inflows that must be used for a specified purpose. The State Land Office uses five special revenue funds as clearing accounts for payments. Please refer to Note 1 to the financial statements for an explanation of these funds.

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 State of New Mexico Constitution (the Constitution) and does not receive general fund appropriations. The LMF 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. The LMF is also referred to as the general fund.

During the year ended June 30, 2019, state trust lands generated \$1.12 billion of receipts. Cash collected from renewable and non-renewable sources are tied to a lease and each lease identifies the beneficiary’s share of the lease. LMF receipts are considered renewable and come from oil and gas rental bonus interest, other rentals, grazing rentals, and other income. LMF receipts increased by \$45 million from 2018 for a total of \$202 million. LMF collections are used to fund operations, special appropriations, and the restoration and remediation fund; over 91% of LMF receipts were distributed to beneficiaries. The beneficiaries record the distributions as revenue in the period incurred.

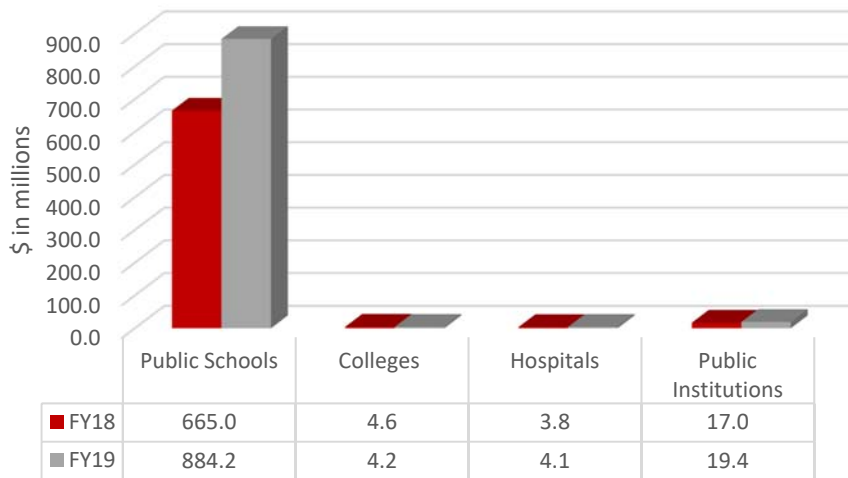
Land Maintenance Fund Distributions



**State of New Mexico Commissioner of Public Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2019**

The Land Grant Permanent Fund (LGPf) collections are from non-renewable sources such as oil and gas royalties. LGPF cash receipts increased by \$221.6 million from 2018 for a total of \$912 million. The LGPF collections were transferred to the Land Grant Permanent Fund maintained at the New Mexico State Investment Council and recognized as revenue in the period the oil and gas are extracted.

Land Grant Permanent Fund Distributions



LMF receipts are distributed directly to beneficiaries at the end of each month. Royalties are transferred to the LGPF and are invested on behalf of the beneficiaries by the State Investment Council who manages the fund. The State Investment Council distributes the LGPF royalties and investment earnings to beneficiaries based on the formula set in the Constitution.

**State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis (Unaudited)
June 30, 2019**

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, 2019, with comparative balances for the fiscal years ended June 30, 2018.

Comparative Analysis of Statement of Net Position Government Activities				
	2019	2018	Amount Change	Total % Change
Assets				
Current and other assets	\$ 373,584,613	\$ 274,736,145	\$ 98,848,468	36%
Capital assets less accumulated depreciation	57,799,163	40,028,032	17,771,131	44%
Total assets	\$ 431,383,776	\$ 314,764,177	\$ 116,619,599	37%
Liabilities				
Current liabilities	\$ 305,800,448	\$ 263,169,313	\$ 42,631,135	16%
Net position				
Net investment in capital assets	57,799,163	40,028,032	17,771,131	44%
Restricted	10,421,696	12,008,707	(1,587,011)	-13%
Unrestricted	(436,694)	(441,875)	5,181	-1%
Total net position	67,784,165	51,594,864	16,189,301	31%
Total liabilities and net position	\$ 373,584,613	\$ 314,764,177	\$ 58,820,436	19%

For more detailed information, see the statement of net position.

Net position increased by 18.7% in 2019. Liabilities increased due to the increase in oil and gas revenue due to the permanent fund.

The government-wide financial statements also include the statement of activities. This statement is focused on the cost of various activities that are provided by the agency's general and other revenues. This section is intended to summarize and simplify the users' analysis of the cost of operating the State Land Office and amounts due to our beneficiaries. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis (Unaudited)
June 30, 2019**

The following table presents the statement of activities for the agency for fiscal year ended June 30, 2019, with comparative balances for the fiscal year ended June 30, 2018.

	Comparative Analysis Statement of Activities Government Activities			
	2019	2018	Amount Change	Total % Change
Expenses				
General government	\$ (17,503,305)	\$ (18,039,138)	\$ 535,833	-3%
Program revenues	20,267,344	25,128,436	(4,861,092)	
Reapportionable to other beneficiaries	<u>(8,011,992)</u>	<u>(4,319,653)</u>	<u>(3,692,339)</u>	85%
Net (expense) revenue	<u>(5,247,953)</u>	<u>2,769,645</u>	<u>(8,017,598)</u>	-289%
General revenues and (expenses)				
Other income	46,485	3,365	43,120	
Unrestricted investment earnings	6,499,978	1,644,535	4,855,443	
Gain on sale of capital assets	<u>14,890,080</u>	<u>14,298</u>	<u>14,875,782</u>	
Total general revenues and transfers	<u>21,436,543</u>	<u>1,662,198</u>	<u>19,774,345</u>	1190%
Change in net position	16,188,590	4,431,843	11,756,747	265%
Net position, beginning of year	51,595,575	47,163,732	4,431,843	9%
Net position, end of year	<u>\$ 67,784,165</u>	<u>\$ 51,595,575</u>	<u>\$ 16,188,590</u>	31%

The significant increase to gain on sale of capital assets is due to three land sales and one exchange of land in 2019.

BUDGETARY COMPARISONS

Governmental Accounting Standards Board Statement No. 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 New Mexico 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, 2019**

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 general fund on June 30 of each year shall be apportioned back to the beneficiaries.

General Fund Budgetary Highlights

The New Mexico State Legislature approves the State Land Office's budget annually. The budget is funded by other state funds, interest income and other income generated by the State Land Office during the budget period and, as needed, a portion of the rental receipts from leases. These receipts are recorded as revenue in the statement of revenues, expenditures and changes in fund balance – governmental funds. All other receipts from leasing sources are distributed to beneficiaries when they become available. Adjustments to the budget require approval by the budget division of the New Mexico 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.

CAPITAL ASSETS

The State Land Office investment in capital assets as of June 30, 2019, amounted to \$57,799,163 net of accumulated depreciation. This investment in capital assets includes lands, buildings, automobiles, furniture, equipment and machinery, and data processing equipment. The total increase in the State Land Office's investment in capital assets for the current period was \$17,771,131 for 44.4%. The following table illustrates the change from 2018 to 2019.

	Comparative Analysis of Capital Assets Government Activities			
	2019	2018	Amount Change	Total % Change
Capital assets				
Land	\$ 49,555,028	\$ 34,683,101	\$ 14,871,927	43%
Construction in progress	2,880,000	-	2,880,000	
Buildings and library	5,642,664	5,525,636	117,028	2%
Furniture, fixtures, and equipment	484,812	484,812	-	0%
Data processing	6,142,748	5,837,095	305,653	5%
Automobiles	1,148,042	952,386	195,656	21%
Total capital assets	65,853,294	47,483,030	18,370,264	39%
Accumulated depreciation	(8,054,131)	(7,454,998)	(599,133)	8%
Capital assets, net	<u>\$ 57,799,163</u>	<u>\$ 40,028,032</u>	<u>\$ 17,771,131</u>	44%

**State of New Mexico Commissioner of Public Lands
Management's Discussion and Analysis (Unaudited)
June 30, 2019**

CURRENTLY KNOWN FACTS DECISIONS OR CONDITIONS OF FUTURE SIGNIFICANCE

During the last fiscal year, the State Land Office continued to experience record breaking receipts for the LMF, with receipts reported at \$202 million. When compared to fiscal year 2018, the State Land Office directly distributed 32% more to the beneficiaries in 2019 than was distributed in 2018. Receipts for the LGPF from sources such as oil and gas royalty increased by \$221.6 million from 2018 for a total of \$912 million. Projections for fiscal year 2020 were developed using either a five-year or three-year trend analysis for rental receipts except oil and gas bonuses and agricultural leases. Oil and gas projections reflect an average of the consensus estimate and the staff knowledge of the oil and gas industry operations on state trust land. Royalty receipt estimates are based on an anticipated oil price of \$55 per barrel price and 8 million barrels of monthly oil production from state trust lands. A five-year trend adjusted to reflect economic data provided by the National Agricultural Statistics Service was used to project agricultural leases while the five-year trend is most often used to project other surface receipts. Commercial lease receipts, including renewable energy is projected using anticipated lease rental potential.

FINANCIAL CONTACT

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

State of New Mexico Commissioner of Public Lands
Statement of Net Position
June 30, 2019

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 400
Interest in the State General Fund Investment Pool	142,680,053
Receivables	
Royalties	153,713,648
Interest assessments, net	2,723,325
Other receivables	4,707
Investments	16,663,317
Total current assets	315,785,450
Capital assets, net of accumulated depreciation	57,799,163
TOTAL ASSETS	\$ 373,584,613
LIABILITIES AND NET POSITION	
Current liabilities	
Accounts payable	\$ 3,280,729
Accrued payroll and payroll liabilities	500,817
Compensated absences payable	482,494
Due to other state agencies	153,713,833
Undistributed receipts	147,822,575
Total current liabilities	305,800,448
Total liabilities	305,800,448
NET POSITION	
Net investment in capital assets	57,799,163
Restricted for capital projects and special appropriations	10,421,696
Unrestricted	(436,694)
Total net position	67,784,165
TOTAL LIABILITIES AND NET POSITION	\$ 373,584,613

State of New Mexico Commissioner of Public Lands
Statement of Activities
Year Ended June 30, 2019

	<u>Governmental Activities</u>
EXPENSES	
General government	<u>\$ 17,503,305</u>
PROGRAM REVENUES	
Charges for services	20,267,344
Less: reapportionment to beneficiaries	(8,011,992)
Charges for services, net	<u>12,255,352</u>
NET PROGRAM REVENUES	<u>(5,247,953)</u>
GENERAL REVENUES	
Gain on sale of assets	14,890,080
Interest income	6,499,978
Other income	46,485
Total general revenues	<u>21,436,543</u>
CHANGE IN NET POSITION	16,188,590
NET POSITION	
Beginning of year	<u>51,595,575</u>
End of year	<u>\$ 67,784,165</u>

State of New Mexico Commissioner of Public Lands
Balance Sheet – Governmental Funds
June 30, 2019

	General Fund 09800	STL Restoration and Remediation Fund 68210	Sales Expense Fund 77600	Land Suspense Fund 77700	Oil and Gas Royalty Fund 26400	Royalty Advance Payment Fund 51400	Total Governmental Funds
ASSETS							
Cash	\$ 400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400
Interest in the State General Fund							
Investment Pool	19,750,322	2,238,508	24,973	22,410,813	97,039,149	1,216,288	142,680,053
Due from other funds	22,388	-	-	-	9,050,000	-	9,072,388
Receivables							
Royalties	-	-	-	-	153,713,648	-	153,713,648
Interest assessments, net	-	-	-	2,723,325	-	-	2,723,325
Other	-	-	4,707	-	-	-	4,707
Investments	-	-	-	-	-	16,663,317	16,663,317
TOTAL ASSETS	\$ 19,773,110	\$ 2,238,508	\$ 29,680	\$ 25,134,138	\$ 259,802,797	\$ 17,879,605	\$ 324,857,838
LIABILITIES							
Accounts payable	\$ 3,031,313	\$ -	\$ 7,107	\$ 242,309	\$ -	\$ -	\$ 3,280,729
Accrued payroll	500,817	-	-	-	-	-	500,817
Due to other funds	-	-	22,388	-	-	9,050,000	9,072,388
Due to other state agencies	-	-	185	-	153,713,648	-	153,713,833
Undistributed receipts	8,011,992	-	-	24,891,829	106,089,149	8,829,605	147,822,575
TOTAL LIABILITIES	11,544,122	-	29,680	25,134,138	259,802,797	17,879,605	314,390,342
FUND BALANCES							
Nonspendable	400	-	-	-	-	-	400
Spendable							
Restricted for special and capital appropriations	8,183,188	2,238,508	-	-	-	-	10,421,696
Committed for projects	23,012	-	-	-	-	-	23,012
Unassigned	22,388	-	-	-	-	-	22,388
TOTAL FUND BALANCES	8,228,988	2,238,508	-	-	-	-	10,467,496
TOTAL LIABILITIES AND FUND BALANCES	\$ 19,773,110	\$ 2,238,508	\$ 29,680	\$ 25,134,138	\$ 259,802,797	\$ 17,879,605	\$ 324,857,838

See accompanying notes.

State of New Mexico Commissioner of Public Lands
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2019

Total fund balance - governmental funds
(Balance Sheet - Governmental Funds) \$ 10,467,496

Amounts reported for governmental activities in the statement of
net position are different because:

Capital assets (net of accumulated depreciation) used in governmental activities
are not financial resources and, therefore, are not reported in the funds. 57,799,163

Long-term liabilities, including compensated absences payable,
are not due and payable in the current period and, therefore, are not reported
in the funds. (482,494)

Net position of governmental activities (Statement of Net Position) \$ 67,784,165

State of New Mexico Commissioner of Public Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds
Year Ended June 30, 2019

	General Fund 09800	STL Restoration and Remediation Fund 68210	Sales Expense Fund 77600	Land Suspense Fund 77700	Oil and Gas Royalty Fund 26400	Royalty Advance Payment Fund 51400	Total
REVENUES							
Other state funds	\$ 2,382,907	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,382,907
Rental income	15,904,396	1,980,041	-	-	-	-	17,884,437
Less: reapportionment to beneficiaries	(8,011,992)	-	-	-	-	-	(8,011,992)
Interest income	6,499,978	-	-	-	-	-	6,499,978
Other income	34,688	-	29,951	-	-	-	64,639
Total revenues	<u>16,809,977</u>	<u>1,980,041</u>	<u>29,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,819,969</u>
EXPENDITURES							
Personal services	8,539,303	-	-	-	-	-	8,539,303
Employee benefits	3,277,625	-	-	-	-	-	3,277,625
In-state travel	142,685	-	-	-	-	-	142,685
Maintenance and repairs	230,337	-	-	-	-	-	230,337
Supplies	737,845	-	-	-	-	-	737,845
Contractual services	2,500,127	463,596	-	-	-	-	2,963,723
Operating costs	670,960	-	29,951	-	-	-	700,911
Out-of-state travel	41,587	-	-	-	-	-	41,587
	<u>16,140,469</u>	<u>463,596</u>	<u>29,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,634,016</u>
Capital outlay	<u>3,774,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,774,836</u>
Total expenditures	<u>19,915,305</u>	<u>463,596</u>	<u>29,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,408,852</u>
NET CHANGE IN FUND BALANCE	(3,105,328)	1,516,445	-	-	-	-	(1,588,883)
FUND BALANCE							
Beginning of year	<u>11,334,316</u>	<u>722,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,056,379</u>
End of year	<u>\$ 8,228,988</u>	<u>\$ 2,238,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,467,496</u>

See accompanying notes.

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
Year Ended June 30, 2019

Net changes in fund balances - total governmental funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (1,588,883)

Amounts reported for governmental activities in the statement of activities are 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	3,774,836
Depreciation expense	(875,631)
Exchange of land	15,010,000
Sale of land	(138,074)

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

Decrease in compensated absences	<u>6,342</u>
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Change in net position of governmental activities (Statement of Activities)	<u><u>\$ 16,188,590</u></u>
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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
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variances
	Original	Final	Amounts (Budgetary Basis)	Final to Actual
REVENUES				
Rental income	\$ 15,546,900	\$ 15,546,900	\$ 15,904,396	\$ 357,496
Less: reapportionment to beneficiaries	-	-	(8,011,992)	(8,011,992)
Rental income, net	15,546,900	15,546,900	7,892,404	(7,654,496)
Other services - interagency	1,364,100	1,364,100	2,382,907	1,018,807
Special appropriations	10,581,138	10,581,138	-	(10,581,138)
Interest income	429,700	429,700	6,499,978	6,070,278
Other income	73,700	73,700	34,688	(39,012)
Total revenues	27,995,538	27,995,538	16,809,977	11,185,561
EXPENDITURES				
Personnel services and employee benefits	12,560,500	12,560,500	11,816,928	743,572
Contractual services	12,182,818	11,927,358	5,561,984	6,365,374
Other costs	3,252,220	3,507,680	2,536,393	971,287
Total expenditures	27,995,538	27,995,538	19,915,305	8,080,233
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ -	\$ -	\$ (3,105,328)	\$ 3,105,328

See accompanying notes.

State of New Mexico Commissioner of Public Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual STL Remediation and Restoration Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts Original	Final	Actual Amounts (Budgetary Basis)	Variances Final to Actual
REVENUES				
Rental income	\$ 412,800	\$ 1,134,863	\$ 1,980,041	\$ 845,178
EXPENDITURES				
Contractual services	<u>412,800</u>	<u>1,134,863</u>	<u>463,596</u>	<u>671,267</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,516,445</u>	<u>\$ 173,911</u>

State of New Mexico Commissioner of Public Lands
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Sales Expense Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts <u>Original</u>	<u>Final</u>	Actual Amounts (Budgetary Basis) <u>(Budgetary Basis)</u>	Variances Final to Actual <u>Final to Actual</u>
REVENUES				
Other income	\$ -	\$ 50,000	\$ 29,951	\$ 20,049
EXPENDITURES				
Other costs	<u>-</u>	<u>50,000</u>	<u>29,951</u>	<u>20,049</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Organization

The State of New Mexico Commissioner of Public Lands (the 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 (the Commissioner) 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 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. Cash is collected 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 collected from rental of State Trust Lands, the State Land Office receives royalties from the extraction and sale of minerals, as well as principal and interest from land sales. Proceeds from land sales and royalties are deposited into the Land Grant Permanent Fund of the State of New Mexico (also known as the Permanent School Fund) and recognized as revenue by the State Investment Council. The majority of the Land Grant Permanent Fund is invested, not spent, and the earned income along with original royalties are 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 of New Mexico. All of the programs that are administered and/or controlled by the State Land Office have been included. No entities were noted that should be considered component units of the State Land Office. The accounting policies of the State Land Office conform to accounting principles generally accepted in the United States of America as applicable to governmental entities.

Basic Financial Statements

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

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

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting.

This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate the State Land Office's actual financial activity in relation to the budget or fiscal plan.

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

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:

Governmental Funds

General Fund (SHARE Fund 09800) - 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 State Land Office in carrying out its specific functions. Sources of revenue are provided by other state funds, interest income, other income, and lease and rental income, as forecasted to meet the budgetary needs. The fund does not revert to the State general fund per section 19-1-1 but any additional funds are reapportioned to the beneficiaries at the end of the year.

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:

Land Suspense Fund (SHARE Fund 77700) - The Land Suspense Fund 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, and reimbursed sales expense are "non-participating income".

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

Oil and Gas Royalty Fund (SHARE Fund 26400)- The Oil and Gas Royalty Fund is a collection and clearing account for royalties. Distributable royalties are transferred to the Land Grant Permanent Fund each month.

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 (SHARE Fund 51400) - The Royalty Advance Payment Fund 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.

Sales Expense Fund (SHARE Fund 77600) - The Sales Expense Fund 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.

STL Restoration and Remediation Fund (SHARE Fund 68210) - The STL Restoration and Remediation Fund was created to utilize 1% of Land Maintenance Fund Revenue for the purpose of remediation and restoration projects on state trust land under Chapter 24 of the Laws of New Mexico 2017. Amounts collected in excess of \$5,000,000 will revert to State Land Office 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 60 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.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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 33, the provider should recognize liabilities and expenses, and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Budgetary Data

The state legislature approves the State Land Office's annual budget. 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 or 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.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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, 2019.

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 (NMSIC) equity pools (Large Cap Active and Large Cap Index pools) and fixed income investments pool (Core Bonds pool). Investments in these external investment pools are carried at market value in accordance with GASB No. 72, *Fair Value Measurement and Application*.

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

The State Land Office follows GASB No. 40, *Deposit and Investment Risk Disclosures*. Per GASB No. 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."

Royalty and Interest Assessments Receivables

Royalty receivable are recognized in the period the oil and gas are extracted from the Trust Land. Interest assessments are recorded when royalty payments made past the due date. Interest assessments are presented net of the allowance.

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

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

accordance with NMAC 2.20.1.9 C (5). Other costs incurred for repairs and maintenance are expensed as incurred.

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

Buildings and library	20 – 40 years
Furniture, fixtures, and equipment	3 – 10 years
Data processing	6 – 10 years
Automobiles	5 years

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.

Use of Estimates

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

Risk Management

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

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

At June 30, 2019, the State Land Office had no claims for which the Risk Management Division has returned as not covered that would become the responsibility of the State Land Office. See Note 12 on contingencies.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balance and Net Position

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 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, 2019, follows:

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

Spendable – Restricted for Refunds. This reserve was created for refunds, per New Mexico Statute 1978 Chapter 19 Public Lands, Section 19-7-62.

Spendable – Restricted for ONGARD Replacement. 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 and per Laws of 2018, Chapter 73, Section 7, Item 18. Reauthorized per Laws of 2019, Chapter 21, Section 7, Item 18.

Spendable – Restricted for ONGARD Replacement. This reserve was created to replace the oil and natural gas administration and revenue database system per Laws of 2018, Chapter 73, Section 7, Item 19.

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, excavate, and replace the parking lot at the State Land Office building per Laws of 2018, Chapter 68, Section 125. Reauthorized per Laws of 2019, Chapter 280, Section 97.

Spendable – Restricted for Capital Projects. This reserve was created to complete the upgrade and replacement of the electrical distribution system at the State Land Office building, per Laws of 2015, Chapter 3, Section 81, Item 2. Reauthorized per Laws of 2019, Chapter 280, Section 96.

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, upgrade, repair, and replace the heating ventilation and air conditioning system at the State Land Office building per Laws of 2018, Chapter 80, Section 47, Item 1.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Spendable – Restricted for Capital Projects. This reserve was created to plan, design, upgrade, repair, and replace the parking lot and sidewalks at the State Land Office building per Laws of 2018, Chapter 80, Section 47, Item 2.

Spendable – Restricted for Capital Projects. This reserve was created to replace the electrical system at the State Land Office building per Laws of 2019, Chapter 277, Section 56.

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.

Spendable – Committed for STL Restoration & Remediation Fund. This reserve was created for restoration and remediation of state trust lands per Laws of 2017, Chapter 24.

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.

Note 2 – Interest 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.

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 all claims will be honored at face value.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 2 – Interest in the State General Fund Investment Pool (continued)

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.

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, 2019, the State Land Office had the following cash and investment in the State General Fund Investment Pool:

Account Name/Type	Account Number	Balance Per Financial Statements
GOVERNMENTAL FUNDS		
General fund		
On deposit with the State Treasurer		
General fund	539-09800	\$ 19,750,322
Petty cash	N/A	<u>400</u>
Total - General fund		<u>19,750,722</u>
Special revenue funds		
On deposit with the State Treasurer		
Land suspense fund	539-77700	22,410,813
Oil and gas royalty fund	539-26400	97,039,149
Royalty advance payment fund	539-51400	1,216,288
Sales expense fund	539-77600	24,973
STL remediation and restoration fund	539-68210	<u>2,238,508</u>
Total - special revenue funds		<u>122,929,731</u>
Total cash and cash equivalents		<u><u>\$ 142,680,453</u></u>

There were no differences between STO and reconciled cash balances for the State Land Office as of June 30, 2019.

Interest Rate Risk – The STO 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.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 2 – Interest in the State General Fund Investment Pool (continued)

Credit Risk – The STO's 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 STO, which are pooled and invested by STO or deposited by the State Land Office with local banks as cash deposits to the credit of the STO.

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 STO 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, 2019, 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 STO.

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, 2019, 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 STO, the reader should see the separate audit report for the STO for the fiscal year ended June 30, 2019.

Note 3 – Investments

Investments in the Royalty Advance Payment Fund are held in the equity and fixed income pools managed by the NMSIC. The market value of the units held in the pools is \$16,663,317. This represents the Royalty Advance Payment Fund's proportionate share of the quoted market prices of the securities held in the pools. The pools 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 NMSIC for the State Land Office are uninsured and unregistered and there is no regulatory oversight on the pools.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 3 – Investments (continued)

The State Land Office accounts for its investments in accordance with GASB 72, Fair Value Measurement and Application, which establishes fair value standards for certain investments held by governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments are measured at fair value on a recurring basis which is based upon the State Land Office's share of NMSIC's pooled investments. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the State Land Office has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2019.

The State Land Office invests in a number of investment pools offered by the NMSIC. Each pool is comprised of units of participation of unlimited quantity. The pools are held in NMSIC's name. No unit in the pool has priority or preference over any other unit and represents an equal beneficial interest in the pool. The valuation the State Land Office's units in the investment pool is provided by the NMSIC on a monthly basis and represents the fair market value as of that date. Therefore, management has determined that all the investments are measured at net asset value as a practical expedient (NAV practical expedient).

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 3 – Investments (continued)

The table below summarizes the investments valued at NAV practical expedient and other pertinent liquidity information:

Investments Measured at NAV Practical Expedient	Fair Value June 30, 2019	Redemption Frequency	Redemption Notice Period
Large Cap Active Pool	\$ 6,696,217	Monthly	5 business days
Large Cap Index Pool	5,984,082	Monthly	5 business days
Core Plus Bonds Pool	<u>3,983,018</u>	Monthly	5 business days
	<u>\$ 16,663,317</u>		

Interest Rate Risk – 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 NMSIC.

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 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.

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.

A copy of the separately issued financial statements can be obtained from the NMSIC.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 4 – Receivables

Interest assessment receivables in the Land Suspense Fund totaling \$2,872,931 represent uncollected amounts that have been billed by the State Land Office for late payment of royalties due.

Management has recorded an allowance of \$149,606 at June 30, 2019 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 Land Office for purposes of editing, reconciliation, and distribution to beneficiaries; or (2) remitters using electronic reporting send the information directly to the State Land Office via tape or electronic data interchange (EDI) for ONGARD processing purposes, with cash payments going directly to the State Land Office royalty account.

Note 5 – Capital Assets

A summary of capital assets and changes in capital assets are as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 252,152	\$ -	\$ -	\$ 252,152
Trust land	34,430,949	15,010,000	138,073	49,302,876
Construction in progress	-	2,880,000	-	2,880,000
Total	34,683,101	17,890,000	138,073	52,435,028
Capital assets being depreciated				
Buildings and library	5,525,636	117,028	-	5,642,664
Furniture, fixtures and equipment	484,812	-	-	484,812
Data processing	5,837,095	511,904	206,251	6,142,748
Automobiles	952,386	265,904	70,248	1,148,042
Total	12,799,929	894,836	276,499	13,418,266
Total capital assets	47,483,030	18,784,836	414,572	65,853,294
Less accumulated depreciation				
Buildings and library	4,293,307	179,695	-	4,473,002
Furniture, fixtures and equipment	358,344	28,155	-	386,499
Data processing	2,142,517	563,897	206,251	2,500,163
Automobiles	660,830	103,885	70,248	694,467
Total	7,454,998	875,632	276,499	8,054,131
Net capital assets	\$ 40,028,032	\$ 17,909,204	\$ 138,073	\$ 57,799,163

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 5 – Capital Assets (continued)

The State Land Office does not have any debt related to capital assets as of June 30, 2019.

Construction in progress consists of the expenditures expended for the replacement of the ONGARD system. Land, trust land, and construction in progress are not subject to depreciation. Depreciation expense for the agency amounted to \$875,631 and is considered a general governmental expense.

The State Land Office exchanged 46,000 acres of state trust land with an appraised value of \$15,010,000 for land with an equivalent market value.

Note 6 – Compensated Absences

The following represents changes in compensated absences for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Compensated absences	\$ 488,836	\$ 460,964	\$ 467,306	\$ 482,494	\$ 482,494

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

Note 7 – Due from and Due to Other Funds

Due from and due to other funds at June 30, 2019, consisted of:

	Due From Other Funds	Fund No.	Amount	Due to Other Funds	Fund No.	Amount
Oil and Gas				Royalty Advance		
Royalty Fund		26400	\$ 9,050,000	Payment Fund	51400	\$ 9,050,000
General Fund		09800	22,388	Sales Expense Fund	77600	22,388
Total			\$ 9,072,388	Total		\$ 9,072,388

This \$9,050,000 represents the cash balance for the Royalty Advance held by the NMSIC 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 General Fund and used to support the agency.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 8 – Due from and Due to Other State Agencies

Due from and due to other state agencies at June 30, 2019, consisted of:

Due to Other Agencies	Fund No.	Amount	Other Agencies	Fund No.	Amount
Oil and Gas			State Investment		
Royalty Fund	26400	\$ 153,713,648	Council	60100	\$ 153,713,648
Sales Expense Fund	76000	185	Commission for the Blind	04700	185
Total		<u>\$ 153,713,833</u>	Total		<u>\$ 153,713,833</u>

The State Land Office owed the NMSIC \$152,713,648 for May 2019 and June 2019 oil and gas royalty sales and distribution. The State Land Office had no amounts due from other state agencies.

Note 9 – Pension Plan – New Mexico 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, 2019, 2018 and 2017 were \$1,412,115, \$1,357,023, and \$1,300,795, respectively, which equal the amount of the required contributions for each fiscal year.

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 PERA. Overall, total pension liability exceeds PERA's net position resulting in a net pension liability.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 9 – Pension Plan – Public Employees Retirement Association (continued)

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 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.

Note 10 – Post-Employment Benefits – State Retiree Health Care Plan

Plan Description

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which 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.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2019 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 10 – Post-Employment Benefits – State Retiree Health Care Plan (continued)

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, 2019 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, 2019, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; 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, 2019, 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.

The State Land Office's contributions to the RHCA for the years ended June 30, 2019, 2018, and 2017 were \$166,228, \$159,406, and \$153,125, respectively, which equal the required contributions for each year.

Note 11 – 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, 2019 totaled \$136,142. Future minimum lease payments under these operating leases are as follows:

Year ended June 30

2020	\$	138,602
2021		42,849
2022		22,053
2023		10,455
		<hr/>
	\$	213,959
		<hr/> <hr/>

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 12 – Contingencies

The State of New Mexico is a titleholder in trust of millions of federally granted acres in New Mexico. As a result, it is possible that the State of New Mexico could become liable for the 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, 2019, no such claims have been asserted by either federal or state environmental agencies. According to management of the State Land Office, if such a claim were filed, the state would have the right to seek contribution from operators, arrangers, and transporters at the site. In addition, the state might be able to reach a settlement agreement with the environmental agency and allow the state to pursue its claims against the other potentially responsible parties. As holder of the legal title to the state lands, the State of New Mexico alone could be liable for the costs of clean-up in the absence of any other potentially responsible party. However, there is no existing case law to determine if this liability would be the responsibility of the State of New Mexico or the assets of the trust whose beneficiaries hold equitable title to the state lands (i.e., State Land Office).

During the course of normal operations, the State Land Office has various claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of interim general counsel and management that the likelihood of any potential liabilities to be material to the financial statements as of June 30, 2019 is remote.

Note 13 – Joint Powers Agreements

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 of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 13 – Joint Powers Agreements (continued)

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.

Note 14 – Special Appropriations

Laws of 2016, Chapter 11, Section 7, Item 5, the State Land Office through New Mexico Taxation and Revenue was appropriated \$4,726,138 to replace the oil and natural gas administration and revenue database system. The remaining balance on this appropriation was \$1,417,329 at June 30, 2019. 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 was through fiscal year 2018. Per Laws of 2018, Chapter 73, Section 7, Item 18 the appropriation was reauthorized through fiscal year 2019. Per Laws of 2019, Chapter 271, Section 7, Item 18 the appropriation was reauthorized through fiscal year 2020. All unexpended or unencumbered balance remaining at the end of fiscal year 2020 shall revert to the beneficiaries.

Laws of 2018, Chapter 73, Section 7, Item 19, the State Land Office was appropriated \$5,000,000 to continue the replacement of the oil and natural gas administration and revenue database system. The remaining balance on this appropriation was \$5,000,000 at June 30, 2019. All unexpended or unencumbered balance remaining at the end of fiscal year 2020 shall revert to the beneficiaries. This appropriation has not yet been budgeted by the State and Office.

Note 15 – Capital Projects

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. Per Laws of 2018, Chapter 68, Section 125, the appropriation was reauthorized through fiscal year 2019. Per Laws of 2019, Chapter 280, Section 97, the appropriation was reauthorized through fiscal year 2021. The remaining balance on this appropriation was \$323,776 at June 30, 2019. All unexpended or unencumbered balance remaining at the end of fiscal year 2021 shall revert to the beneficiaries.

State of New Mexico Commissioner of Public Lands Notes to Financial Statements

Note 15 – Capital Projects (continued)

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. Per Laws of 2019, Chapter 280, Section 96 was reauthorized through fiscal year 2021. The remaining balance on this appropriation was \$332,082 at June 30, 2019. All unexpended or unencumbered balance remaining at the end of fiscal year 2021 shall revert to the beneficiaries.

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

Laws of 2018, Chapter 80, Section 47, Item 1, the State Land Office was appropriated \$180,000 to plan, design, upgrade, repair, and replace the heating ventilation and air conditioning system at the State Land Office Building. The period of time for expending the appropriation is through fiscal year 2022. The remaining balance on this appropriation was \$180,000 at June 30, 2019. All unexpended or unencumbered balance remaining at the end of fiscal year 2022 shall revert to the beneficiaries.

Laws of 2018, Chapter 80, Section 47, Item 2, the State Land Office was appropriated \$40,000 to plan, design, upgrade, repair, and replace the parking lot and sidewalks at the State Land Office Building. The period of time for expending the appropriation is through fiscal year 2022. The remaining balance on this appropriation was \$40,000 at June 30, 2019. All unexpended or unencumbered balance remaining at the end of fiscal year 2022 shall revert to the beneficiaries.

Laws of 2019, Chapter 277, Section 56, the State Land Office was appropriated \$390,000 to replace the electrical system at the State Land Office Building. The period of time for expending the appropriation is through fiscal year 2023. The remaining balance on this appropriation was \$390,000 at June 30, 2019. All unexpended or unencumbered balance remaining at the end of fiscal year 2023 shall revert to the beneficiaries.

State of New Mexico Commissioner of Public Lands

Notes to Financial Statements

Note 16 – 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, 2019 follows:

Account Name/Type	Nonspendable	Restricted and Committed Purposes
General Fund		
Petty Cash	\$ 400	\$ -
Restricted - Refunds - NMSA 1978 Section 19-7-62	-	500,000
Restricted - ONGARD Replacement - L 16 C11 S007 I015	-	1,417,329
Restricted - ONGARD Replacement - L 17 C73 S007 I019	-	5,000,000
Restricted - Capital Projects	-	1,265,859
Committed - Nutt Grassland - Other gifts/grants	-	23,012
STL Restoration and Remediation Special Revenue Fund		
Restricted - Land Restoration & Remediation Projects	-	2,238,508
	\$ 400	\$ 10,444,708

Note 17 – 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 18 – Upcoming Accounting Pronouncements

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

In June 2017, GASB No. 87 *Leases* was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The State Land Office has evaluated this standard and determined that it will significantly impact the basic financial statements and notes to the financial statements. The State Land Office is unable to determine the amount of the impact.

State of New Mexico Commissioner of Public Lands
Notes to Financial Statements

Note 18 – Upcoming Accounting Pronouncements (continued)

In June 2018, GASB No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period* was issued. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The State Land Office is still evaluating how this pronouncement will affect the financial statements.

In June 2018, GASB No. 90 *Majority Equity Interests—an amendment of GASB 14 and 61* was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The State Land Office is still evaluating how this pronouncement will affect the financial statements.

In May 2019, GASB No. 91 *Conduit Debt Obligations* was issued. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The State Land Office is still evaluating how this pronouncement will affect the financial statements.

Other Information

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
Year Ended June 30, 2019

General Fund - Multi-Year Budgets for Special Appropriations

ONGARD Replacement - Laws of 2018, Chapter 73,
 Section 7, Item 18

	Budgeted Amounts		Actual	Prior Year	Total	Variances
	Original	Final		Actual		(Unfavorable)
						Final to Actual
REVENUES						
Special appropriations	\$ 4,726,138	\$ 4,726,138	\$ -	\$ 5,000,000	\$ 5,000,000	\$ 273,862
EXPENDITURES						
Contractual services	4,442,218	4,142,218	2,986,963	273,861	3,260,824	881,394
Other	283,920	583,920	321,848	-	321,848	262,072
Total budgeted expenditures	4,726,138	4,726,138	3,308,811	273,861	3,582,672	1,143,466
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ (3,308,811)	\$ 4,726,139	\$ 1,417,328	\$ (869,604)

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 (continued)
Year Ended June 30, 2019

ONGARD Replacement - Laws of 2018, Chapter 73, Section 7, Item 19	General Fund - Multi-Year Budgets for Special Appropriations					Variances Favorable (Unfavorable) Final to Actual
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
REVENUES						
Special appropriations	\$ 5,000,000	\$ 5,000,000	\$ -	\$ -	\$ -	\$ 5,000,000
EXPENDITURES						
Contractual services	5,000,000	5,000,000	-	-	-	5,000,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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 (continued)
Year Ended June 30, 2019

Capital Project - Plan, design, excavate, replace parking lot - Laws of 2018, Chapter 68, Section 125	General Fund - Multi-Year Budgets for Capital Projects					Variances Favorable (Unfavorable) Final to Actual
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
REVENUES						
Special appropriations	\$ 360,000	\$ 360,000	\$ -	\$ 360,000	\$ 360,000	\$ -
EXPENDITURES						
Contractual services	43,000	43,000	36,224	-	36,224	6,776
Other	317,000	317,000	-	-	-	317,000
Total budgeted expenditures	<u>360,000</u>	<u>360,000</u>	<u>36,224</u>	<u>-</u>	<u>36,224</u>	<u>323,776</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (36,224)</u>	<u>\$ 360,000</u>	<u>\$ 323,776</u>	<u>\$ (323,776)</u>

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 (continued)
Year Ended June 30, 2019

General Fund - Multi-Year Budgets for Capital Projects

Capital Project - Electrical Distribution System
Laws of 2015, Chapter 3, Section 81, Item 2

	Budgeted Amounts		Actual	Prior Year Actual	Total	Variances Favorable (Unfavorable) Final to Actual
	Original	Final				
REVENUES						
Special appropriations	\$ 350,000	\$ 350,000	\$ -	\$ 350,000	\$ 350,000	\$ -
EXPENDITURES						
Contractual services	20,000	20,000	4,164	13,754	17,918	2,082
Other	330,000	330,000	-	-	-	330,000
Total budgeted expenditures	350,000	350,000	4,164	13,754	17,918	332,082
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ (4,164)	\$ 336,246	\$ 332,082	\$ (332,082)

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 (continued)
Year Ended June 30, 2019

General Fund - Multi-Year Budgets for Capital Projects						
Capital Project - Heating Ventilation and Air Conditioning System Laws of 2018, Chapter 80, Section 47, Item 1	Budgeted Amounts			Prior Year	Total	Variances Favorable (Unfavorable) Final to Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Actual</u>	<u> </u>	<u> </u>
REVENUES						
Special appropriations	\$ 180,000	\$ 180,000	\$ -	\$ 180,000	\$ 180,000	\$ -
EXPENDITURES						
Other	<u>180,000</u>	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,000</u>	<u>\$ 180,000</u>	<u>\$ (180,000)</u>

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 (continued)
Year Ended June 30, 2019

General Fund - Multi-Year Budgets for Capital Projects

Capital Project - Upgrade Parking Lot and Sidewalks Laws of 2018, Chapter 80, Section 47, Item 2						Variances Favorable (Unfavorable) Final to Actual
	Budgeted Amounts Original	Final	Actual	Prior Year Actual	Total	
REVENUES						
Special appropriations	\$ 40,000	\$ 40,000	\$ -	\$ 40,000	\$ 40,000	\$ -
EXPENDITURES						
Other	40,000	40,000	-	-	-	40,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ (40,000)</u>

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 (continued)
Year Ended June 30, 2019

Capital Project - Replace Electrical System Laws of 2019, Chapter 277, Section 56	General Fund - Multi-Year Budgets for Capital Projects					Variances Favorable (Unfavorable) Final to Actual
	Budgeted Amounts		Actual	Prior Year Actual	Total	
	Original	Final				
REVENUES						
Special appropriations	\$ 390,000	\$ 390,000	\$ 390,000	\$ -	\$ 390,000	\$ -
EXPENDITURES						
Other	390,000	390,000	-	-	-	390,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 390,000	\$ -	\$ 390,000	\$ (390,000)

Compliance Section

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

Ms. Stephanie Garcia Richard
State of New Mexico
Commissioner of Public Lands
Mr. Brian Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue funds with a legally adopted budget of the New Mexico Commissioner of Public Lands (the State Land Office), as of and for the year ended June 30, 2019, 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 30, 2019.

Internal Control Over Financial Reporting

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

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

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*.

We noted certain matters, that are required to be reported per Section 12-6-5 of NMSA 1978, that we have described in the schedule of findings and questions costs as items 2019-001 and 2019-002.

State Land Office's Response to Findings

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

Purpose of this Report

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

Mess Adams LLP

Albuquerque, New Mexico
October 30, 2019

**State of New Mexico Commissioner of Public Lands
Schedule of Findings and Questioned Costs
June 30, 2019**

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? No

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? No

FINANCIAL STATEMENT FINDING

None

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

2019-001 - Whistleblower Poster (Other Matter in Accordance with 2.2.2 NMAC)

Condition: During our onsite visit we did not see notices regarding the Whistleblower Protection Act.

Criteria: Per NMSA 10-16C-5, every public employer shall keep posted in a conspicuous place on the public employer's premises notices that set forth the provisions of the Whistleblower Protection Act.

Cause: Management oversight of the requirement.

Effect: The State Land Office is not in compliance with state requirements and employees may not have received proper notice of their rights.

Auditor's Recommendation: We recommend that all management at the agency add notices where employees can easily read provisions as required by the Whistleblower Protection Act.

Management's Response: Management agrees. The State Land Office purchases a labor law poster from Labor Law Center each year. The Labor Law Center advertises that the poster will keep us compliant with both federal and state labor laws, and will satisfy mandatory labor law posting requirements for all businesses in New Mexico. However, the Whistleblower Protection Act poster was not included in the standard poster purchased. Management believes it is important to ensure all employees are apprised of their respective rights and posted the required notice as soon as this issue was brought to the State Land Office's attention.

State of New Mexico Commissioner of Public Lands
Schedule of Findings and Questioned Costs
June 30, 2019

2019-002: Code of Conduct Not Distributed Timely (Other Matter in Accordance with 2.2.2 NMAC)

Condition: The State Land Office reviewed and finalized a code of conduct during the fiscal year but the code of conduct was not distributed to its employees within 30 days of approval.

Criteria: Per Governmental Conduct Act (10-16 to 10-16-18 NMSA 1978), the code of conduct shall be reviewed at least once every four years. If reviewed and approved in the current year, the code of conduct must be distributed to its employees within 30 days of that approval date.

Cause: Management oversight of the requirement.

Effect: Noncompliance in accordance with State Audit Rule.

Recommendation: We recommend the State Land Office send the next updated code of conduct within time established by the State Audit Rule requirement.

Management's Response: Management agrees. The Commissioner of Public Lands signed the updated Code of Conduct on April 10, 2019. The State Land Office filed the updated Code of Conduct with the Secretary of State's Office on May 10, 2019, and the updated policy was distributed to staff on June 20, 2019. The State Land Office was 10 days late in distributing the approved Code of Conduct to staff to due to a delay in preparing the PDF fillable forms for Disclosure of Outside Employment, Disclosure of Outside Employment and the Acknowledgement form, which are necessary to accurately account for all staff reading and complying with the Code of Conduct. The State Land Office is committed to distributing any changes to policy to staff in a timely manner.

State of New Mexico Commissioner of Public Lands
Summary Schedule of Prior Year Findings
June 30, 2019

None

State of New Mexico Commissioner of Public Lands
Exit Conference
June 30, 2019

An exit conference was held on October 22, 2019. During the meeting, the contents of this report were discussed with the following individuals:

Commissioner of Public Lands

Stephanie Garcia Richard	Commissioner of Public Lands
Sunalei Stewart	Deputy Commissioner of Public Lands
Donna Sandoval	Assistant Commissioner of Administrative Services
Margaret Sena	Division Director of Administrative Services
Jordan Kessler	Assistant Commissioner of Oil, Gas, and Mineral Resources
Danny Martinez	Division Director of Royalty Management
Craig Johnson	Assistant Commissioner of Commercial Resources

Moss Adams LLP:

Kory Hoggan	Partner
Aaron Hamilton	Senior Manager

The State Land Office is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.