

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

JUNE 30, 2008

Moss Adams LLP
6100 Uptown Blvd NE Suite 400
Albuquerque, New Mexico
(505) 830-6200

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STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS

OFFICIAL ROSTER

JUNE 30, 2008

Name	Title
Patrick H. Lyons	Commissioner of Public Lands
Dennis Garcia	Deputy Commissioner of Public Lands
Assistant Commissioners of Public Lands:	
Larry Kehoe	Surface Resources
Robert Stranhan	General Counsel
Kristin Haase	Communications
Dallas Rippy	Special Projects
Jerry King	Commercial Resources
John Bemis	Oil, Gas and Mineral Resources
Della Gutierrez	Administrative Services
Division Directors:	
Jami Bailey	Oil, Gas and Minerals Division
James Jackson	Surface Resources Division
Jim Norwick	Field Operations Division
Brian Bingham	Commercial Leasing Division
Kurt McFall	Royalty Management Division
Barbara Ricci	Records Management Division
Margaret Sena	Administrative Services Division

Independent Auditors' Report

T 505-830-6200
F 505-830-6782

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

We have audited the accompanying basic financial statements of the governmental activities, the aggregate remaining fund information, each major fund and general fund budgetary comparison of the State of New Mexico Commissioner of Public Lands (SLO) as of and for the year ended June 30, 2008, which collectively comprise the Land Office's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the capital project fund presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2008. These financial statements are the responsibility of the SLO's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SLO's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the SLO are intended to present the financial position, and the changes in financial position, of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the SLO. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2008, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mr. Patrick Lyons
State of New Mexico
Commissioner of Public Lands
and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate remaining fund information, and each major fund of the SLO, as of June 30, 2008, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the SLO, as of June 30, 2008, and the budgetary comparison of Capital Project Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008, on our consideration of the SLO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 4 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions that collectively comprise the SLO's basic financial statements and the budgetary comparison for the capital projects fund of the SLO. The additional schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico
December 10, 2008

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2008

The Management's Discussion and Analysis (MD&A) provides in layman's terms the past and current position of the agency's financial condition. Further, the discussion and analysis of the New Mexico State Land Office's (SLO) financial performance introduces the basic financial statements and provides an analytical overview of the agency's financial activities for the fiscal year ended June 30, 2008. 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 Highlights

The Commissioner of Public Lands is charged with generating and maximizing revenue from state trust lands in order to support public education and other beneficiary institutions, while simultaneously striving to protect, conserve and maintain the lands so they may be used by future generations. The Commissioner of Public Lands is an elected official pursuant to the New Mexico Constitution and is non general fund agency. The Land Maintenance Fund is the general operating fund of the Land Office and it is used to account for the general operations of the Land Office in carrying out its specific functions. Sources of revenue are provided by the transfer of lease and rental income from the Land Suspense Fund.

- For 2008 the trust realized total revenues of \$546.2 million, with \$474.9 million in revenue coming from nonrenewable sources deposited into Land Grant Permanent Fund (LGPF). Of these total distributions, direct distributions to our beneficiaries from rentals and other renewable sources totaled \$57.4 million. Total distribution from LGPF totaled \$467.0 million for a grand total distribution to our beneficiaries of \$524.4 million for fiscal year 2008. The primary beneficiary--Public Schools received \$436.6 million.

Oil and gas production on trust lands dominated the agency's business activity by generating \$459.9 million – or nearly 94 percent of all revenues collected.

Overhead as a percentage of total revenues remains at a low 2.4 percent.

Department Highlights

The State Land Office continues to play a pivotal role in developing alternative sources of energy to power homes schools and businesses. At the same time, we are improving the value of our trust lands and creating a new revenue stream which will benefit public schools across the state. As we race to meet the state's Renewable Portfolio Standard which mandates that a minimum amount of renewable energy serve the state, three solar energy developers have identified 27,689 acres of trust lands in five counties as potential sites for utility-scale solar power plants.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2008

Recently the agency did a minor re-organization to promote renewable energy at the State Land Office that will benefit the agency for many years to come. The new division is the Renewable Energy and Commercial Leasing Division. Also, the Right-of-Way Bureau has been expanded to include a Water Resources Unit. The mission of the two new organizations is to protect the trust's natural resources while creating income for the trust beneficiaries. Oil and Gas is experiencing a decline in price that will impact the State and the State Land Office beneficiaries. The State Land Office is seeking out new ways to generate revenue from wind, solar, and water on state trust lands.

USING THE ANNUAL FINANCIAL REPORT

The financial report includes the sections described below.

Management Discussion and Analysis

This section includes information on the use of the annual report, as well as management's analysis of the financial position and results of operations for the agency.

Government-wide Financial Statements

Government-wide statements report information about the agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets, liabilities, and net assets.

The government-wide financial statements also include the Statement of Activities. This is focused on the cost of various activities that are provided by the agency's general and other revenues. This is intended to summarize and simplify the users' analysis of the cost of services. This reflects the agency's basic service of collecting and optimizing revenue for 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

	Government Activities FY 2008	Government Activities FY 2007	Total Percentage Change
Current and other assets	\$ 7,584,968	7,537,710	0.6%
Capital assets less accumulated depreciation	2,260,130	2,509,201	-11.0%
Total assets	<u>\$ 9,845,098</u>	<u>10,046,911</u>	-2.0%
Liabilities	<u>\$ 5,918,743</u>	<u>6,475,367</u>	-9.4%

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2008

Net assets			
Investments in capital assets	\$ 2,260,130	2,509,201	-11.0%
Restricted – Ogard modernization	333,333	-	100%
Unrestricted	<u>1,332,892</u>	<u>1,062,343</u>	36.2%
Total net assets	<u>\$ 3,926,355</u>	<u>3,571,544</u>	9.0%

The increase in total assets is the result of additional revenue received.

For more detailed information see the Statement of Net Assets.

Statement of Activities

	Government Activities FY 2008	Government Activities FY 2007	Total Percentage Change
Expenses			
General government	<u>\$ (13,483,586)</u>	<u>(12,599,055)</u>	6.6%
Program revenues	<u>13,142,618</u>	<u>11,795,300</u>	43.4%
Change in net assets net (expense) revenue	<u>(340,968)</u>	<u>(803,755)</u>	-167.4%
General revenues and (expenses)			
Transfers in	29,994	-	100.0%
Transfers out	(517,100)	(517,100)	0.0%
General Fund appropriation	-	40,000	-100.0%
Other income	11,289	2,587	77.1%
Unrestricted investment earnings	5,967,844	6,041,571	-1.2%
Reapportionable to other beneficiaries	(4,815,371)	(5,046,902)	-4.8%
Reversion to State General Fund	-	(40,000)	-100.0%
Gain on sale of capital assets	<u>19,123</u>	<u>18,569</u>	2.9%
Total general revenues and transfers	<u>695,779</u>	<u>498,725</u>	28.3%
Change in net assets	<u>354,811</u>	<u>(305,030)</u>	186.0%
Net assets, beginning	<u>3,571,544</u>	<u>3,876,574</u>	-8.5%
Net assets, ending	<u>\$ 3,926,355</u>	<u>3,571,544</u>	9.0%

Increase in rental revenue/net assets is result of additional rental income received.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Year Ended June 30, 2008

Fund Financial Statements

Fund financial statements distinguish between governmental and fiduciary funds. These statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The emphasis of the fund financial statements is on major funds rather than fund type.

The Governmental Major Fund presentation is done on a sources and uses of liquid resources basis and this is the manner in which the financial plan (budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the financial statement allows for the demonstration of sources and uses and compliance with budget.

The fund financial statements also allow the government to address its agency funds. While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. As such, these assets are not presented as part of the government-wide financial statements.

Capital Assets

	June 30, 2008	June 30, 2007
Land	\$ 252,152	252,152
Buildings and library	3,835,036	3,835,036
Furniture, fixtures, and equipment	744,106	744,106
Data processing	1,954,164	1,829,107
Automobiles	713,119	671,263
Totals	<u>7,498,577</u>	<u>7,331,664</u>
Accumulated depreciation	<u>(5,238,447)</u>	<u>(4,822,463)</u>
Capital assets, net	<u>\$ 2,260,130</u>	<u>2,509,201</u>

The agency does not own any infrastructure assets such as roads, bridges, etc.

Budgetary Comparisons

The New Mexico State Legislature makes annual appropriations to the agency primarily through the General Appropriation Act. All adjustments to the budget require approval by the State Budget Division of the Department of Finance and Administration with notification of and review by the Legislative Finance Committee. Over the course of the year, SLO may adjust its budget as authorized in the GAA or through other acts of the Legislature.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2008

In addition to the MD&A, GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented. The budgetary comparison schedules should present both the original and final appropriated budgets for the reporting period as well as the actual inputs, outputs and balances stated on the government's budgetary basis.

As required by the Office of the State Auditor under 2 NMAC 2.2, the Statements of Revenues and Expenditures – Budget and Actual are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

The General Fund is the operating fund for the State Land Office. The balance remaining reflects additional revenues collected. The State Land Office is a non-general fund agency and reserves revenue needed to support Land Office operations. The variance will revert to the beneficiaries per NM Statutes 19-1-13 any balance remaining in the State Lands Maintenance Fund on June 30 of each year shall be apportioned back to the beneficiaries. All other agency funds are fiduciary funds and serve as flow through accounts.

THE AGENCY'S FUND

Government Fund

As of the year-end, the government funds (as presented on the balance sheet) reported a fund balance of \$2,080,406. The amount of \$4,815,371 will revert back to the beneficiaries.

Budgetary Highlights

The following is a brief review of the budgetary changes from the original to the final budget of the major governmental fund.

The budgetary comparison schedule shows no change between the original and final appropriated budget for the reporting period.

ANTICIPATED CHANGES

Over the past years the price of oil and natural gas has escalated to approximately \$130 for a barrel of oil and \$10 for an mcf of gas resulting in record distributions for the New Mexico State Land Office. These prices have since dipped to \$40 for a barrel of oil and \$4 to \$5 for an mcf of gas. Since production levels are relatively consistent, revenue projections are based primarily on the price of oil and natural gas. This drastic fluctuation in prices will cause the revenue projections for the remainder of FY09 and FY10 to be significantly lower than in previous fiscal years.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2008

The State Legislature has appropriated \$13,966 to the agency for fiscal year 2009, a 1.7% increase over the current year budget. The increase is due to compensation package approved during the 2008 legislative session.

FINANCIAL CONTACT

The agency's financial statements are designed to present users with the general overview of the agency's finances and to demonstrate the department's accountability. If you have questions about the report or need additional financial information contact the agency's Assistant Commissioner of Administrative Services at 310 Old Santa Fe Trail, PO Box 1148, Santa Fe, New Mexico 87501-1148.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF NET ASSETS
 June 30, 2008

	Governmental Activities
ASSETS	
Current assets	
Interest in State Treasurer's Investment Pool	\$ 6,697,878
Petty cash	400
Interest receivable	38,278
Supplies inventory	23,591
Due from external parties	824,821
	<hr/>
Total current assets	7,584,968
	<hr/>
Capital assets	
Land	252,152
Buildings	3,835,036
Furniture, fixtures and equipment	744,106
Data processing	1,954,164
Automobiles	713,119
Accumulated depreciation	(5,238,447)
	<hr/>
Total capital assets, net of accumulated depreciation	2,260,130
	<hr/>
Total assets	\$ 9,845,098
	<hr/> <hr/>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF NET ASSETS (CONTINUED)
 June 30, 2008

	Governmental Activities
LIABILITIES AND NET ASSETS	
Liabilities	
Vouchers payable	\$ 269,114
Accrued payroll and payroll liabilities	420,077
Compensated absences payable	414,181
Due to beneficiaries	<u>4,815,371</u>
Total liabilities	<u>5,918,743</u>
Net Assets	
Invested in capital assets	2,260,130
Restricted ONGARD modernization	333,333
Unrestricted	<u>1,332,892</u>
Total net assets	<u>3,926,355</u>
Total liabilities and net assets	<u><u>\$ 9,845,098</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2008

	Governmental Activities
Expenses	
General government	\$ 13,483,586
	<hr/>
Program revenues	
Charges for services	13,142,618
	<hr/>
	13,142,618
	<hr/>
Net (expense) revenue	(340,968)
	<hr/>
General revenues and (expenses)	
Gain on sale of capital assets	19,123
Other income	11,289
Transfer in	29,994
Transfers out	(517,100)
Unrestricted investment earnings	5,967,844
Reapportionable to other beneficiaries	(4,815,371)
	<hr/>
Total general revenues and transfers	695,779
	<hr/>
Change in net assets	354,811
	<hr/>
Net assets, beginning of year	3,571,544
	<hr/>
Net assets, ending of year	\$ 3,926,355
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See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2008

	General Fund	Capital Projects Fund	Total
ASSETS			
Interest in State Treasurer's Investment Pool	\$ 5,488,316	1,209,562	6,697,878
Petty cash	400	-	400
Due from State General Fund	38,278	-	38,278
Supplies inventory	23,591	-	23,591
Due from other funds	824,821	-	824,821
	<hr/>		
Total assets	\$ 6,375,406	1,209,562	7,584,968
	<hr/>		
LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable and accounts payable	\$ 269,114	-	269,114
Accrued payroll and payroll liabilities	420,077	-	420,077
Due to beneficiaries	4,815,371	-	4,815,371
	<hr/>		
Total liabilities	5,504,562	-	5,504,562
	<hr/>		
Fund Balances:			
Reserved for			
ONGARD modernization	333,333	-	333,333
Supplies and petty cash	23,991	-	23,991
Refunds	500,000	-	500,000
Capital projects	-	1,209,562	1,209,562
Unreserved	13,520	-	13,520
	<hr/>		
Total fund balances	870,844	1,209,562	2,080,406
	<hr/>		
Total liabilities and fund balances	\$ 6,375,406	1,209,562	7,584,968
	<hr/>		

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 June 30, 2008

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

Total Fund Balances - Governmental Funds (Governmental Funds Balance Sheet)	\$ 2,080,406
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Amounts reported for governmental activities in the Statement of Net Assets are different because

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

Land	\$ 252,152	
Buildings and library	3,835,036	
Furniture , fixtures and equipment	744,106	
Data processing	1,954,164	
Automobiles	713,119	
Accumulated depreciation	(5,238,447)	
Total capital assets	<u>2,260,130</u>	

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of compensated absences	<u>(414,181)</u>
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Net Assets of Governmental Activities (Statement of Net Assets)	<u><u>\$ 3,926,355</u></u>
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See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ending June 30, 2008

	General Fund	Capital Projects Fund	Total
Revenues			
Other state funds	\$ 574,120	-	574,120
Rental income	12,568,498	-	12,568,498
Interest income	5,967,844	-	5,967,844
Other income	35,599	-	35,599
Total revenues	<u>19,146,061</u>	<u>-</u>	<u>19,146,061</u>
Expenditures, current			
Personal services	7,152,727	-	7,152,727
Employee benefits	2,783,182	-	2,783,182
In-state travel	241,587	-	241,587
Maintenance and repairs	163,011	-	163,011
Supplies	780,290	-	780,290
Contractual services	2,001	-	2,001
Operating costs	1,731,267	-	1,731,267
Out-of-state travel	60,208	-	60,208
Capital outlay	294,517	-	294,517
Total expenditures	<u>13,208,790</u>	<u>-</u>	<u>13,208,790</u>
Excess(deficiency) revenues over expenditures	<u>5,937,271</u>	<u>-</u>	<u>5,937,271</u>
Other financing sources (uses)			
Ongard Reversion	29,994	-	29,994
Transfer out	(517,100)	-	(517,100)
Reversion to General Fund	-	-	-
Reapportionable to other beneficiaries	(4,815,371)	-	(4,815,371)
Total other financing uses	<u>(5,302,477)</u>	<u>-</u>	<u>(5,302,477)</u>
Net change in fund balance	634,794	-	634,794
Fund balance, beginning of year	<u>236,050</u>	<u>1,209,562</u>	<u>1,445,612</u>
Fund balance, end of year	<u>\$ 870,844</u>	<u>1,209,562</u>	<u>2,080,406</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2008

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

Net change in net assets - Governmental Funds (Statement of Activities)		\$	354,811
<p>In the statement of activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental funds, however, expenditure for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The increase in the liability for the year is</p>			
			30,912
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period these amounts are</p>			
Capital outlay	\$	(294,517)	
Depreciation expense		538,403	
Excess of depreciation expense over capital outlay			243,886
<p>Governmental funds do not report (gain) loss on disposal of capital assets. However, (gain) loss on disposal is reported on the Statement of Activities. In the current period, the (gain) loss on disposal of capital assets is</p>			
			(19,123)
<p>Governmental funds report the receipt of cash from the sale of assets as revenue. However, this receipt of cash is not reported on the Statement of Activities</p>			
			24,308
Change in fund balances - Governmental Funds (Statement of Revenues, Expenditures and Changes in Fund Balance)		\$	<u>634,794</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LAND
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL -
 GENERAL FUND
 Year Ended June 30, 2008

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Other state funds	\$ 485,700	485,700	574,120	88,420
Rental income	11,488,000	11,488,000	12,568,498	1,080,498
Interest income	2,151,000	2,151,000	5,967,844	3,816,844
Miscellaneous revenue	100,100	100,100	35,599	(64,501)
Total budgeted revenues	14,224,800	14,224,800	19,146,061	4,921,261
Prior year cash balances	-	-	-	-
Total	14,224,800	14,224,800	19,146,061	4,921,261
Expenditures				
General government				
Personal services & benefits	10,193,700	10,043,700	9,935,909	107,791
Contractual services	1,358,200	1,223,700	1,141,574	82,126
Other	2,155,800	2,440,300	2,131,089	309,211
Other financial uses	517,100	517,100	517,100	-
Total budgeted expenditures	14,224,800	14,224,800	13,725,672	499,128
Ongard Reversion	-	-	(29,994)	29,994
Reapportionment	-	-	4,815,371	(4,815,371)
Total expenditures	14,224,800	14,224,800	18,511,049	(4,286,249)
Excess (deficiency) of revenues over expenditures	\$ -	-	635,012	635,012

See Notes to Financial Statements.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
 June 30, 2008

	Agency Funds
ASSETS	
Interest in State Treasurer's Investment Pool	\$ 130,942,072
Investments	12,229,310
Receivables	
Interest	817,902
Royalties	123,756,072
Interest assessments	3,960,025
Allowance for uncollectible accounts	<u>(3,960,025)</u>
Total assets	<u>\$ 267,745,356</u>
LIABILITIES	
Vouchers payable	1,012
Due to external parties	824,821
Due to beneficiaries	
Royalties and rentals	257,258,772
Deposits held in trust	<u>9,660,751</u>
Total liabilities	<u>\$ 267,745,356</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major fund in the governmental category.

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

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

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

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

A. Governmental Funds

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

Capital Projects Funds. Capital projects funds are used to account for the financial resources to be used for capital projects. The capital projects fund is:

Building Renovation Fund - The Building Renovations Fund (SHARE Fund number 87500) is used to account for the financial resources to be used for the renovations, repairs, modifications, and improvements at the Edward J. Lopez Building. The fund does not revert to the State general fund per section 19-1-1.

B. Fiduciary Funds

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

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

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

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Fiduciary Funds (Continued)

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

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

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

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

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

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

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The General Appropriation Act of 2004 established the modified accrual basis of accounting for governmental funds in accordance with the Manual of Model Accounting Practices issued by the Department of Finance and Administration as the budgetary basis of accounting for the State of New Mexico. The change in policy resulted in the recognition of budgetary control from a fiscal year to an appropriation period. Under the budgetary basis, prior year encumbrances allowed for money to be expended in one fiscal year, while charging the expenditure to another year's budget. Under the new policy, as long as the appropriation period has not lapsed, and a budget has been approved by the Department of Finance and Administration, an encumbrance can be charged against that budget. However, when the appropriation period has lapsed, so does the authority for the budget.

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

Budgetary Data. The State Legislature makes annual appropriations to the Land Office. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the General Fund and the Capital Projects 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 Capital Projects Fund. The budget is prepared on a modified accrual basis and may include encumbrances for multiple year appropriations in fund expenditures (commitments for the expenditure of monies relating to unperformed contracts of orders for goods and services). GAAP includes accrued expenditures but does not include encumbrances in fund expenditures. Per the General Appropriation Act, Laws of 2006, Chapter 107, Section 3, Subsections O and N, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for the accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Land Office is required to submit a budget report for the General Fund, Special Revenue Fund and the Capital Projects Fund to the Department of Finance and Administration and the Legislative Finance Committee by September 1 of each year. The report submitted by the Land Office also details revenues and expenditures or expenses for the preceding year.

The Department of Finance and Administration makes recommendations and adjustments to the appropriation request which becomes the Governor's proposal to the Legislature. The Legislative Finance Committee holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

The recommended appropriation proposals from both the Department of Finance and Administration and the Legislative Finance Committee are presented to the Legislature for approval of the final budget plan.

All subsequent budget transfers and increases must be authorized by the Director of the State Budget Control Division. The budget has been amended for the year ended June 30, 2008.

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

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

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

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

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

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

“Statement 3 disclosures generally referred to as category 1 and category 2 deposits and investments are eliminated.” “However, disclosure of authorized investments or the requirements for reporting certain repurchase agreements and reverse repurchase agreements are still required.”

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

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

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

Capital Assets. Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Effective June 17, 2005 assets are capitalized by the Land Office if the cost is more than \$5,000. Other costs incurred for repairs and maintenance are expensed as incurred.

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

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

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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

At June 30, 2008, the Land Office had no claims for which the Risk Management Division has returned as not covered that would become the responsibility of the Land Office.

Reservations and Designations. Reservations of fund balance are created to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditure. Specific reservations of fund balance accounts are summarized below:

Reserved for Supplies. This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department expects to use the resources within the next budgetary period.

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

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

Reserved for ONGARD. This reserve was created to begin replacement of the Oil and Natural Gas Accounting and Reporting Database (ONGARD) with commercial off the shelf solutions, per Laws of 2008, Chapter 3, Section 7.

The reserve for ONGARD is also considered a restriction of net assets as it is legally enforceable created by enabling legislation.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2008

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents Custodial Credit Risk.

The interest in State Treasurer Investment pool is in accounts that are pooled with other state funds on deposit in the State Treasurer's name at commercial banking and other financial institutions. Information regarding the adequacy of collateralization of deposits is not known to individual agencies and is the responsibility of the State Treasurer. To obtain pledged collateral, investment risk, and insurance coverage information for the Agency's State Treasurer deposits, a copy of separately issued financial statements can be obtained from the State Treasurer's Office.

In accordance with Chapter 6, Article 10 NMSA 1978, annotated, the Agency is required to deposit its funds with the New Mexico State Treasurer or, in special circumstances, in bank accounts approved by the New Mexico State Treasurer. The Department can withdraw its funds from the State Treasurer as needed and therefore considers them to be cash equivalents. All earnings on deposits are retained by the State General Fund; therefore from the Department's perspective, the cash balances are non-interest bearing and stated at cost.

The cash balance on deposit with Lea County Bank as of June 30, 2008, does not exceed the Federal Deposit Insurance Corporation (FDIC) insured coverage of \$100,000. There are no reconciling items between bank and book.

As of June 30, 2008, cash consisted of the following:

	Account Number	Amount
General Fund		
On deposit with the State Treasurer -		
Land Maintenance Fund	539-09800	\$ 5,488,316
Petty cash	N/A	400
		<u>5,488,716</u>
Capital Projects Fund		
On deposit with the State Treasurer -	539-87500	<u>1,209,562</u>
Agency Funds		
On deposit with the State Treasurer -		
Oil and Gas Royalty Fund	539-26400	<u>114,689,730</u>
Sales Expense Fund	539-77600	<u>13,520</u>
Land Suspense Fund	539-77700	<u>15,102,388</u>
Royalty Advance Payment Fund	539-51400	<u>1,136,434</u>
		<u>130,942,072</u>
		<u>\$ 137,640,350</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2008

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Differences between STO/Bank balances and reconciled cash balances are as follows:

	Cash Balance Per STO/Bank	Deposits In Transit/ Refunds Not Recorded	Cash Balance Per Financial Statements
General Fund	\$ 5,488,316	-	5,488,316
Capital Projects Fund			
Building Renovations	1,209,562	-	1,209,562
Agency Funds:			
Sales Expense Fund	13,520	-	13,520
Land Suspense Fund	15,102,388	-	15,102,388
Oil & Gas Royalty	114,689,730	-	114,689,730
Royalty Advance Payments	1,136,434	-	1,136,434
	\$ 137,639,950	-	
General Fund - petty cash			400
			<u>\$ 137,640,350</u>

NOTE 3. INVESTMENTS

Investments in the Royalty Advance Payment Fund are held in the Equity and Fixed Income Pooled Investment Funds of the New Mexico State Investment Council. The market value of the units held in the Investment Funds is \$12,229,310. This represents the Royalty Advance Payment Fund's proportionate share of the quoted market prices of the securities held in Investment Funds. The Funds invest in equity securities, U.S. Treasury and Federal Agency notes, industrial and utility bonds and notes, and overnight repurchase agreements. The investments held by the State Investment Council for Land Office are uninsured and unregistered and there is no regulatory oversight on the Investment Funds.

Investment Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Land Office will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds, external investment pools, and securities underlying reverse repurchase agreements are not exposed to custodial credit risk.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2008

NOTE 3. INVESTMENTS (CONTINUED)

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

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

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

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

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

NOTE 4. ACCOUNTS RECEIVABLE

Interest receivables for the following funds, represent earnings from interest in State Treasurer Investment Pool.

Month	264	776	777	098	514
05/2008	\$ 396,151	69	66,178	24,564	3,794
06/2008	307,356	41	41,504	13,714	2,809
TOTAL	\$ 703,507	110	107,682	38,278	6,603

Interest assessment receivables in the Land Suspense Fund of \$3,960,025 represent uncollected amounts which have been billed by the Land Office for late payment of royalties due. Some interest assessments may be abated.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2008

NOTE 4. ACCOUNTS RECEIVABLE (CONTINUED)

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

Royalties receivable in the Oil and Gas Royalty Fund of \$60,695,369 represent the amount of oil and gas production royalties that had not been received by the Land Office as of June 30, 2008. Amounts are considered fully collectible, thus no allowance account is considered necessary.

NOTE 5. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Governmental Activities				
Land	\$ 252,152	-	-	252,152
Buildings and Library	3,835,036	-	-	3,835,036
Furniture, fixtures, and equipment	744,106	-	-	744,106
Data processing	1,829,107	158,129	(33,072)	1,954,164
Automobiles	671,263	136,388	(94,532)	713,119
Totals	<u>7,331,664</u>	<u>294,517</u>	<u>(127,604)</u>	<u>7,498,577</u>
Accumulated depreciation				
Buildings and Library	(2,556,008)	(250,345)	-	(2,806,353)
Furniture, fixtures and equipment	(448,955)	(51,502)	-	(500,457)
Data processing	(1,366,787)	(154,890)	33,072	(1,488,605)
Automobiles	(450,713)	(81,666)	89,347	(443,032)
Total accumulated depreciation	<u>(4,822,463)</u>	<u>(538,403)</u>	<u>122,419</u>	<u>(5,238,447)</u>
Capital assets, net	<u>\$ 2,509,201</u>	<u>(243,886)</u>	<u>(5,185)</u>	<u>2,260,130</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2008

NOTE 5. CAPITAL ASSETS (CONTINUED)

The Land Office does not have any debt related to capital assets as of June 30, 2008. Depreciation expense for the agency amounted to \$538,403 and is considered a general governmental expense.

NOTE 6. PRIOR YEAR EXPENDITURES

The total amount of expenditures \$13,725,890 recorded in statement of revenues and expenditures less accounts payable bills \$218 paid out of FY09 budget is \$13,725,672. Total expenditures in statement of revenue, expenditures budget and actual general fund is \$13,725,672.

NOTE 7. COMPENSATED ABSENCES

The following represents changes in compensated absences for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Compensated absences	\$ 383,269	415,337	384,425	<u>414,181</u>

Management estimates that compensated absences are due within one year. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes. In the past compensated absences have been paid out of the General Fund.

NOTE 8. TRANSFERS AND INTERFUND PAYABLES/RECEIVABLES

Transfers payable June 30, 2008, consisted of:

Due to Oil & Gas (26400) from Advance Royalty (51400) \$ 9,250,000

This amount was a transfer to be invested with the State Investment Council.

Interfund payable at June 30, 2008, consisted of:

Due to General Fund (09800) from Sales Expense (77600) \$ 13,521

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 8. TRANSFERS AND INTERFUND PAYABLES/RECEIVABLES
(CONTINUED)

These amounts are interest paid to funds to be transferred to the general fund.

Due to General Fund (09800) from Oil and Gas (26400)	\$	703,508
Due to General Fund (09800) from Sales Expense (77600)		110
Due to General Fund (09800) from Land Suspense (77700)		107,682

NOTE 9. TRANSFERS TO/FROM OTHER GOVERNMENTAL AGENCIES

Transfers at June 30, 2008, consisted of:

Transfer in from State of New Mexico Taxation and Revenue Department Fund (17200/33300) to the Land Office's General Fund (53900/09800) for \$29,994. This amount is a reversion due to the overpayment of the State Land Office portion to the Ongard Service Center.

Transfer out to State of New Mexico Tax and Revenue Department (17200/33300) from the Land Office's General Fund (53900/09800) for \$517,100. This amount is the Land Office's portion of the operating budget for ONGARD.

NOTE 10. RETIREMENT PLAN

Plan Description. Substantially all of the New Mexico State Land Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments 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 7.42% 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,

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 10. RETIREMENT PLAN (CONTINUED)

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, 2008, 2007 and 2006 were \$1,186,382, \$1,105,354, and \$1,031,079, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. New Mexico 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 the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2008

NOTE 11. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The 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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The New Mexico State Land Office contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were \$88,336, \$85,014 and \$80,499, respectively, which equal the required contributions for each year.

NOTE 12. LEASE COMMITMENTS

The Land Office leases buildings and parking space under operating leases as follows:

Lessor	Term	Amount
Osborne Enterprises, LLC.	7/1/06 to 6/30/08	\$ 800/month
505 Processors	7/1/08 to 6/30/11	200/month
Marilyn Barry	7/1/08 to 6/30/11	350/month
East Roswell Development Corp.	7/1/08 to 6/30/11	375/month
Ron Clem, LLC.	7/1/08 to 6/30/09	375/month
SWCD	7/1/06 to 6/30/09	600/month

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2008

NOTE 12. LEASE COMMITMENTS (CONTINUED)

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

<u>Year Ending June 30,</u>	
2009	\$ 31,200
2010	<u>21,900</u>
	<u>\$ 53,100</u>

The State Land Office leases certain office equipment from various vendors under operating leases. The expenditures for leases during the year ended June 30, 2008 were \$65,916.

Future minimum lease payments under these operating leases follow:

<u>Year Ending June 30,</u>	
2009	\$ 47,814
2010	37,506
2011	20,082
2012	<u>2,410</u>
	<u>\$ 107,812</u>

NOTE 13. CONTINGENCIES

The State of New Mexico is a titleholder in trust of millions of federally granted acres in New Mexico. As a result, it is possible that the State of New Mexico could become liable for the clean up of contaminated sites on state lands or for the reimbursement to federal or state environmental agencies for the cost of clean up. As of June 30, 2008, no such claims have been asserted by either federal or state environmental agencies. According to management of the Land Office, if such a claim were filed, the State would have the right to seek contribution from operators, arrangers and transporters at the site. In addition, the State might be able to reach a settlement agreement with the environmental agency and allow the

State to pursue its claims against the other potentially responsible parties. As holder of the legal title to the state lands, the State of New Mexico alone could be liable for the costs of clean-up in the absence of any other potentially responsibility party. However, there is no existing case law to determine if this liability would be the responsibility of the State of New Mexico or the assets of the trust whose beneficiaries hold equitable title to the state lands (i.e. Land Office).

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 14. JOINT POWERS AGREEMENTS

STATE OF NEW MEXICO ONGARD SYSTEM

The Tri-Agencies – Energy Minerals & Natural Resources Department (EMNRD), Taxation & Revenue Department (TRD), and State Land Office entered into “Agreement” pursuant to the New Mexico Joint Powers Agreement Act, NMSA 1978 ss 11-1-1 through 11-1-7 (1997 Repl) and the ONGARD System Development Act, NMSA 1978 ss 19-110B-1 through 19-10B-8 (1994 Repl) on January 14, 2004. The purpose of this agreement is to identify, define and articulate the methods by which the Tri-Agencies will carry out their shared responsibility for the ongoing management, operation, utilization and maintenance of the ONGARD System; define the process for determining the need for changes to the ONGARD System and for establishing priorities; and establish a mechanism to allocate the financial responsibility of each member of the TRI-Agencies with respect to costs incurred relating to the ONGARD System. The Tri-Agency is responsible for the ONGARD Service Center approved budget as follows: SLO 33 1/3% and EMNRD and TRD 33 1/3% each. The agreement may be terminated by mutual consent of the Tri-Agencies. The audit responsibility is with the State of New Mexico Taxation & Revenue.

NOTE 15. SPECIAL APPROPRIATIONS

Per Laws of 2007, Chapter 28, Section 5, Special Appropriation, Item 54 the Land Office has been appropriated \$500,000 for trust land remediation activities. Per Laws of 2007, Chapter 28, Section 5, Special Appropriation, Item 54, the period of time for expending the five hundred thousand dollars appropriated from the state land maintenance fund for asset inventory, forest health and other necessary remediation projects for state trust lands, royalty recovery litigation, and preservation and protection of state trust lands, royalty recovery litigation, and preservation and protection of state trust water assets is through fiscal year 2008. The total expenditures for fiscal year 2008 were \$492,521. The remaining balance on these appropriations was \$7,479 at June 30, 2008 which reverted to the beneficiaries.

Per Laws of 2005, Chapter 347, Section 61 Items 1, 2, and 3, the State Land Office was appropriated a total of \$1,766,769 for Capital Projects. The period of time for expending the appropriation for building renovations from the Capital Projects Fund is through fiscal year 2010. The total expenditures for fiscal year 2008 were \$0. The remaining balance of this appropriation was \$1,205,149 at June 30, 2008. All unexpended or unencumbered balance remaining at the end of fiscal year 2010 shall revert to the beneficiaries.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL -
 CAPITAL PROJECTS FUND
 Year Ended June 30, 2008

	Capital Projects			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Prior year cash balance	\$ 1,205,149	1,205,149	-	(1,205,149)
Total revenues	1,205,149	1,205,149	-	(1,205,149)
Expenditures				
General government				
Contractual services	132,569	132,569	-	132,569
Other	1,072,580	1,072,580	-	1,072,580
Total expenditures	1,205,149	1,205,149	-	1,205,149
Excess (deficiency) of revenues over expenditures	\$ -	-	-	1,205,149

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
AGENCY FUNDS
June 30, 2008

SALES EXPENSE FUND

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

LAND SUSPENSE FUND

A collection and clearing account for Land Office receipts. Distributions are made monthly to the appropriate beneficiaries, the Land Maintenance Fund and the State Permanent Fund.

OIL AND GAS ROYALTY FUND

A collection and clearing account for royalties collected by the Oil and Gas Accounting Division of the State of New Mexico Taxation and Revenue Department. Distributable royalties are transferred to the State Permanent Fund each month.

ROYALTY ADVANCE PAYMENT FUND

A collection and clearing account for advance royalty payments made in accordance with Sections 19-10-56 through 19-10-60 NMSA 1978 and related investment income on behalf of beneficiaries.

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 Year Ended June 30, 2008

	Sales Expense Fund	Land Suspense Fund	Oil and Gas Royalty Fund	Royalty Advance Payment Fund	Total
ASSETS					
Interest In State Treasurers Investment Pool	\$ 13,520	15,102,388	114,689,730	1,136,434	130,942,072
Investments	-	-	-	12,229,310	12,229,310
Due from Advance Royalty Fund	-	-	9,250,000	-	9,250,000
Receivables					
Royalties	-	-	123,756,072	-	123,756,072
Interest	110	107,682	703,507	6,603	817,902
Interest assessments	-	3,960,025	-	-	3,960,025
Less allowance for uncollected accounts	-	(3,960,025)	-	-	(3,960,025)
	<u>\$ 13,630</u>	<u>15,210,070</u>	<u>248,399,309</u>	<u>13,372,347</u>	<u>276,995,356</u>
LIABILITIES					
Vouchers payable	-	1,012	-	-	1,012
Due to Oil and Gas Royalty Fund	-	-	-	9,250,000	9,250,000
Due to external parties	13,630	107,684	703,507	-	824,821
Due to beneficiaries					
Royalties and rentals	-	14,690,623	238,445,802	4,122,347	257,258,772
Deposits held in trust	-	410,751	9,250,000	-	9,660,751
	<u>\$ 13,630</u>	<u>15,210,070</u>	<u>248,399,309</u>	<u>13,372,347</u>	<u>276,995,356</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING SCHEDULES OF CHANGES IN ASSETS
 AND LIABILITIES - ALL AGENCY FUNDS
 Year Ended June 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Interest in State Treasurers Investment Pool	\$ 110,412,176	181,983,481	161,453,585	130,942,072
Lea County Bank balance	5,375	-	5,375	-
Investments	12,666,889		437,579	12,229,310
Due from Advance Royalty Fund	9,250,000	-	-	9,250,000
Receivables				
Oil and gas royalties	68,306,546	123,756,072	68,306,546	123,756,072
Interest	27,114	817,902	27,114	817,902
Interest				
Interest assessments	3,733,690	226,335	-	3,960,025
Less allowance for uncollected accounts	(3,733,690)	(226,335)	-	(3,960,025)
	<u>\$ 200,668,100</u>	<u>306,557,455</u>	<u>230,230,199</u>	<u>276,995,356</u>
LIABILITIES				
Vouchers payable	-	1,012	-	1,012
Due to General Fund	16,492	-	2,972	13,520
Due to Oil and Gas Royalty Fund	9,250,000	-	-	9,250,000
Due to beneficiaries				
Royalties and rentals	181,777,108	305,259,782	229,778,118	257,258,772
Due to Maintenance Fund	-	811,301	-	811,301
Deposits held in trust	9,624,500	47,781	11,530	9,660,751
	<u>\$ 200,668,100</u>	<u>306,119,876</u>	<u>229,792,620</u>	<u>276,995,356</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - SALES EXPENSE FUND
 June 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Interest in State Treasurers Investment Pool	\$ 15,992	-	2,472	13,520
Interest Receivable	-	110	-	110
	<u>\$ 15,992</u>	<u>110</u>	<u>2,472</u>	<u>13,630</u>
LIABILITIES				
Due to General Fund	\$ 15,992	-	2,472	13,520
Due to Maintenance Fund	-	110	-	110
	<u>\$ 15,992</u>	<u>110</u>	<u>2,472</u>	<u>13,630</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - LAND SUSPENSE FUND
 June 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Interest in State Treasurers Investment Pool	\$ 13,576,873	58,882,280	57,356,765	15,102,388
Lea County Bank balance	5,375	-	5,375	-
Receivables				
Interest assessments	3,733,690	226,335	-	3,960,025
Less allowance for uncollected accounts	(3,733,690)	(226,335)	-	(3,960,025)
Interest receivable	-	107,682		107,682
	<u>\$ 13,582,248</u>	<u>58,989,962</u>	<u>57,362,140</u>	<u>15,210,070</u>
LIABILITIES				
Vouchers payable	\$ -	1,012	-	1,012
Due to General Fund	500	-	500	-
Due to beneficiaries				
Royalties and rentals	13,207,248	58,833,485	57,350,110	14,690,623
Due to maintenance fund	-	107,684	-	107,684
Deposits held in trust	374,500	47,781	11,530	410,751
	<u>\$ 13,582,248</u>	<u>58,989,962</u>	<u>57,362,140</u>	<u>15,210,070</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - OIL AND GAS ROYALTY FUND
 PAYMENT FUND
 June 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Interest in State Treasurers Investment Pool	\$ 95,753,263	122,300,907	103,364,440	114,689,730
Due from Advance Royalty Fund	9,250,000	-	-	9,250,000
Receivables				
Oil and gas royalties	68,306,546	123,756,072	68,306,546	123,756,072
Interest Receivable	-	703,507	-	703,507
	<u>\$ 173,309,809</u>	<u>246,760,486</u>	<u>171,670,986</u>	<u>248,399,309</u>
LIABILITIES				
Due to beneficiaries				
Royalties and rentals	\$ 164,059,809	246,056,979	171,670,986	238,445,802
Due to Maintenance Fund	-	703,507	-	703,507
Deposits held in trust	9,250,000	-	-	9,250,000
	<u>\$ 173,309,809</u>	<u>246,760,486</u>	<u>171,670,986</u>	<u>248,399,309</u>

STATE OF NEW MEXICO
 COMMISSIONER OF PUBLIC LANDS
 COMBINING STATEMENT OF CHANGES IN ASSETS
 AND LIABILITIES - ROYALTY ADVANCE
 PAYMENT FUND
 June 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Interest in State Treasurer Investment Pool	\$ 1,066,048	800,294	729,908	1,136,434
Investments	12,666,889	(437,579)	-	12,229,310
Interest receivable	27,114	6,603	27,114	6,603
	<u>\$ 13,760,051</u>	<u>369,318</u>	<u>757,022</u>	<u>13,372,347</u>
LIABILITIES				
Due to Oil and Gas Royalty Fund	\$ 9,250,000	-	-	9,250,000
Due to beneficiaries				
Royalties and rentals	4,510,051	369,318	757,022	4,122,347
	<u>\$ 13,760,051</u>	<u>369,318</u>	<u>757,022</u>	<u>13,372,347</u>

**Report on Internal Control Over
Financial Reporting and on Compliance
And Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Governmental Auditing Standards***

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

We have audited the accompanying financial statements of the governmental activities, the aggregate remaining fund information, each major fund, and the general fund budgetary comparisons of the State of New Mexico Commissioner of Public Lands (Land Office), as of and for the year ended June 30, 2008, which collectively comprise the Land Office's basic financial statements and have issued our report thereon dated December 10, 2008. We have also audited the budgetary comparison for the capital project fund of the Land Office as of and for the year ended June 30, 2008, as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Land Office's internal control over financial reporting as a basis for designing our auditing procedures 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 Land Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Land Office's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Land Office's internal control. We consider the deficiency described in the accompanying schedule of findings and responses, as item 08-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Land Office's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

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

The Land Office's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Land Office's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Land Office, the State of New Mexico, Office of the State Auditor and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
December 10, 2008

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2008

07-01	Reconciliation of Agency Interest in the State Investment Pool (Agency Cash Balances)	Resolved
07-02	Lack of Adequate Management Monitoring	Resolved
07-03	Journal Entries	Resolved
07-04	Audit Report Due Date	Resolved
07-05	Untimely Reversion	Resolved

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

08-01 Payroll Termination Process

CONDITION

During our audit, the State Land Office reported an instance where an employee received a payment after termination in the amount of \$591; the human resource department was not notified in time for the employee termination to be reflected in SHARE.

CRITERIA

Per the Personnel Act 10-9-17 NMSA 1978, No person shall make or approve payment for personnel service. Changes in personnel, terminations, originate in the Division and should be communicated to the human resources department on a timely basis. This will help to maintain security of Land Office's assets and accuracy of financial reporting by properly accounting for the termination of employees.

EFFECT

As the change was not reflected in SHARE, the terminated employee received an erroneous payment that the Land Office was unable to recover.

CAUSE

The employee was included on the approved time sheet for the payment after the termination. However it was not reported to the human resource department in time for the employee termination to be reflected in SHARE and the employee was automatically paid.

RECOMMENDATION

To prevent such a transaction, we recommend that the Division promptly notify the human resource department of changes in pay rates or personnel.

MANAGEMENT RESPONSE

Procedures have been implemented to ensure the Divisions submit accurate information on time sheets and notify Human Resources with termination dates.

STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS
EXIT CONFERENCE
June 30, 2008

An exit conference to discuss the results of the audit and the audit report was held on December 10, 2008. In attendance were:

Representing State of New Mexico Commissioner of Public Lands:

Patrick Lyons, Commissioner of Public Lands
Margaret Sena, Division Director of Administrative Division

Representing Moss Adams LLP:

Valerie Allen, Partner